

TEEKAY CORP  
Form 6-K  
August 18, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 6-K

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Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2017  
Commission file number 1- 12874

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TEEKAY CORPORATION  
(Exact name of Registrant as specified in its charter)

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4th Floor, Belvedere Building  
69 Pitts Bay Road  
Hamilton, HM 08, Bermuda  
(Address of principal executive office)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.  
Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes ☐ No ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes ☐ No ☒

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## ITEM 1 - FINANCIAL STATEMENTS

## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF LOSS

(in thousands of U.S. Dollars, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenues	513,923	587,619	1,057,428	1,228,727
Voyage expenses	(40,640 )	(28,299 )	(91,437 )	(59,889 )
Vessel operating expenses	(207,784 )	(205,655 )	(399,044 )	(421,516 )
Time-charter hire expense	(30,689 )	(38,314 )	(69,461 )	(77,917 )
Depreciation and amortization	(142,741 )	(141,079 )	(285,771 )	(285,236 )
General and administrative expenses	(29,541 )	(29,871 )	(60,979 )	(62,838 )
Asset impairments (note 6a)	(1,500 )	(43,649 )	(1,500 )	(43,649 )
Loss on sale of vessels, equipment and other operating assets (note 6b)	(12,742 )	(18,956 )	(17,169 )	(46,575 )
Restructuring charges (note 11)	—	(5,818 )	(2,176 )	(19,804 )
Income from vessel operations	48,286	75,978	129,891	211,303
Interest expense	(74,383 )	(73,255 )	(144,738 )	(145,458 )
Interest income	1,536	1,042	3,017	2,364
Realized and unrealized losses on non-designated derivative instruments (note 13)	(30,570 )	(89,272 )	(37,045 )	(196,893 )
Equity (loss) income (note 6c)	(47,984 )	37,219	(37,637 )	52,636
Foreign exchange loss (note 7 and 13)	(17,342 )	(15,157 )	(20,246 )	(25,671 )
Other loss	(759 )	(21,436 )	(464 )	(21,286 )
Net loss before income taxes	(121,216 )	(84,881 )	(107,222 )	(123,005 )
Income tax expense (note 14)	(3,527 )	(1,423 )	(6,546 )	(2,499 )
Net loss	(124,743 )	(86,304 )	(113,768 )	(125,504 )
Less: Net loss (income) attributable to non-controlling interests	44,591	8,495	(11,640 )	(1,088 )
Net loss attributable to the shareholders of Teekay Corporation	(80,152 )	(77,809 )	(125,408 )	(126,592 )
Per common share of Teekay Corporation (note 15)				
• Basic loss attributable to shareholders of Teekay Corporation	(0.93 )	(1.14 )	(1.45 )	(1.81 )
• Diluted loss attributable to shareholders of Teekay Corporation	(0.93 )	(1.14 )	(1.45 )	(1.81 )
• Cash dividends declared	0.0550	0.0550	0.1100	0.1100
Weighted average number of common shares outstanding (note 15)				
• Basic	86,259,207	72,945,635	86,217,567	72,844,031
• Diluted	86,259,207	72,945,635	86,217,567	72,844,031

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands of U.S. Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Net loss	(124,743)	(86,304)	(113,768)	(125,504)
Other comprehensive income (loss):				
Other comprehensive income (loss) before reclassifications				
Unrealized gain (loss) on marketable securities	16	(25)	700	10
Unrealized loss on qualifying cash flow hedging instruments	(2,795)	(12,547)	(3,585)	(38,193)
Pension adjustments, net of taxes	(57)	209	(112)	431
Foreign exchange gain (loss) on currency translation	19	(44)	411	87
Amounts reclassified from accumulated other comprehensive loss relating to:				
Realized loss on qualifying cash flow hedging instruments				
To interest expense (note 13)	706	—	762	—
To equity income	139	892	983	1,821
Other comprehensive loss	(1,972)	(11,515)	(841)	(35,844)
Comprehensive loss	(126,715)	(97,819)	(114,609)	(161,348)
Less: Comprehensive loss (income) attributable to non-controlling interests	46,069	16,947	(10,243)	23,914
Comprehensive loss attributable to shareholders of Teekay Corporation	(80,646)	(80,872)	(124,852)	(137,434)

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. Dollars, except share and per share amounts)

	As at June 30, 2017 \$	As at December 31, 2016 \$
<b>ASSETS</b>		
Current		
Cash and cash equivalents (note 7)	600,881	567,994
Restricted cash	108,535	107,672
Accounts receivable, including non-trade of \$31,636 (2016 – \$33,924) and related party balance of \$10,513 (2016 – \$26,471)	252,627	295,357
Assets held for sale	23,900	61,282
Net investment in direct financing leases (note 5)	15,282	154,759
Prepaid expenses and other (note 13)	79,327	94,370
Total current assets	1,080,552	1,281,434
Restricted cash - non-current	105,342	129,576
Vessels and equipment (note 7)		
At cost, less accumulated depreciation of \$3,525,857 (2016 – \$3,294,021)	7,459,681	7,666,975
Vessels under capital leases, at cost, less accumulated amortization of \$79,037 (2016 – \$69,072) (note 5)	674,771	484,253
Advances on newbuilding contracts and conversion costs (note 9a)	1,082,277	987,658
Total vessels and equipment	9,216,729	9,138,886
Net investment in direct financing leases - non-current (note 5)	638,564	505,835
Loans to equity-accounted investees and joint venture partners, bearing interest between nil and LIBOR plus margins up to 3%	322,061	292,209
Equity-accounted investments (note 6c and 9b)	978,266	1,010,308
Other non-current assets (note 13)	169,822	190,699
Intangible assets – net	82,466	89,175
Goodwill	176,630	176,630
Total assets	12,770,432	12,814,752
<b>LIABILITIES AND EQUITY</b>		
Current		
Accounts payable	47,800	53,507
Accrued liabilities and other (notes 11 and 13)	402,039	403,685
Current portion of derivative liabilities (note 13)	103,118	115,813
Current portion of long-term debt (note 7)	1,299,806	998,591
Current obligation under capital leases	95,355	40,353
Current portion of in-process revenue contracts	27,984	34,511
Total current liabilities	1,976,102	1,646,460
Long-term debt (note 7)	5,273,116	5,640,955
Long-term obligation under capital leases	574,484	352,486
Derivative liabilities (note 13)	378,446	415,041
In-process revenue contracts	75,900	88,179
Other long-term liabilities (note 9d and 14)	328,823	333,236
Total liabilities	8,606,871	8,476,357
Commitments and contingencies (notes 5, 7, 9, and 13)		

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Redeemable non-controlling interest (note 9e)	249,778	249,102
Equity		
Common stock and additional paid-in capital (\$0.001 par value; 725,000,000 shares authorized; 86,259,246 shares outstanding and issued (2016 – 86,149,975)) (note 8)	890,779	887,075
(Accumulated deficit) retained earnings	(75,882	) 22,893
Non-controlling interest	3,108,941	3,189,928
Accumulated other comprehensive loss	(10,055	) (10,603 )
Total equity	3,913,783	4,089,293
Total liabilities and equity	12,770,432	12,814,752

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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TEEKAY CORPORATION AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands of U.S. Dollars)

	Six Months Ended June 30,	
	2017	2016
	\$	\$
Cash and cash equivalents provided by (used for)		
<b>OPERATING ACTIVITIES</b>		
Net loss	(113,768)	(125,504 )
Non-cash items:		
Depreciation and amortization	285,771	285,236
Amortization of in-process revenue contracts	(13,357 )	(14,432 )
Unrealized (gain) loss on derivative instruments	(45,128 )	82,807
Loss on sale of vessels, equipment and other operating assets (note 6)	17,169	46,575
Asset impairments (note 6)	1,500	43,649
Equity loss (income), net of dividends received	65,915	(44,972 )
Income tax expense	6,546	2,499
Unrealized foreign exchange loss and other	74,271	62,122
Change in operating assets and liabilities	21,461	(14,570 )
Expenditures for dry docking	(18,639 )	(15,905 )
Net operating cash flow	281,741	307,505
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt, net of issuance costs	461,095	1,147,647
Prepayments of long-term debt	(132,920)	(1,068,937)
Scheduled repayments of long-term debt (note 7)	(451,072)	(496,034 )
Decrease in restricted cash	20,723	34,681
Net proceeds from equity issuances of subsidiaries (note 4)	8,521	168,752
Net proceeds from equity issuance of Teekay Corporation	—	96,163
Distributions paid from subsidiaries to non-controlling interests	(63,803 )	(62,403 )
Cash dividends paid	(9,493 )	(8,003 )
Other financing activities	(21,232 )	(9,233 )
Net financing cash flow	(188,181)	(197,367 )
<b>INVESTING ACTIVITIES</b>		
Expenditures for vessels and equipment	(365,903)	(269,109 )
Proceeds from sale of vessels and equipment	59,935	149,582
Proceeds from sale-lease back of vessels	297,230	179,434
Investment in equity-accounted investments	(31,680 )	(56,578 )
Advances to joint ventures and joint venture partners	(32,469 )	(13,536 )
Other investing activities	12,214	11,385
Net investing cash flow	(60,673 )	1,178
Increase in cash and cash equivalents	32,887	111,316
Cash and cash equivalents, beginning of the period	567,994	678,392
Cash and cash equivalents, end of the period	600,881	789,708
The accompanying notes are an integral part of the unaudited consolidated financial statements.		

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## TEEKAY CORPORATION AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. Dollars, except share amounts)

	TOTAL EQUITY						
	Thousands of Shares of Common Stock Outstanding #	Common Stock and Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings \$	Accumulated Other Compre- hensive Loss \$	Non- controlling Interests \$	Total \$	Redeemable Non- controlling Interest \$
Balance as at December 31, 2016	86,150	887,075	22,893	(10,603 )	3,189,928	4,089,293	249,102
Net (loss) income			(125,408 )		11,640	(113,768 )	
Reclassification of redeemable non-controlling interest in net income					(12,670 )	(12,670 )	12,670
Other comprehensive income (loss)				556	(1,397 )	(841 )	
Dividends declared			(9,457 )		(63,255 )	(72,712 )	(13,206 )
Reinvested dividends	1	2				2	
Employee stock compensation and other (note 8)	108	3,702				3,702	
Dilution gains on equity issuances of subsidiaries (note 4)			36,090			36,090	
Changes to non-controlling interest from equity contributions and other				(8 )	(15,305 )	(15,313 )	1,212
Balance as at June 30, 2017	86,259	890,779	(75,882 )	(10,055 )	3,108,941	3,913,783	249,778

The accompanying notes are an integral part of the unaudited consolidated financial statements.



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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, other than share and per share data)

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (or GAAP). They include the accounts of Teekay Corporation (or Teekay), which is incorporated under the laws of the Republic of the Marshall Islands, and its wholly-owned or controlled subsidiaries (collectively, the Company). Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these unaudited interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2016, included in the Company's Annual Report on Form 20-F, filed with the U.S. Securities and Exchange Commission (or SEC) on April 12, 2017. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments, consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Company's consolidated financial position, results of operations, cash flows and changes in total equity for the interim periods presented. The results of operations for the three and six months ended June 30, 2017, are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation. In addition, certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period relating to certain operating activities in the Company's consolidated statements of cash flows.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Given current credit markets, it is possible that the amounts recorded as derivative assets and liabilities could vary by material amounts prior to their settlement.

2. Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (or FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (or ASU 2014-09). ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 is effective for the Company January 1, 2018 and shall be applied, at the Company's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company expects that the adoption of ASU 2014-09 may result in a change in the method of recognizing revenue from contracts of affreightment (or CoA) whereby revenue will be recognized over the voyage until discharge is complete, instead of over the voyage until tendering notice for the next voyage. This will result in all revenue being fully recognized upon discharge of cargo whereas currently revenue recognition extends into the period the vessel returns to the oil field. This change may result in revenue being recognized earlier which may cause additional volatility in revenue and earnings between periods. In addition, the Company expects that the adoption of ASU 2014-09 may result in a change in the method of recognizing revenue for voyage charters, whereby the Company's method of determining proportional performance will change from discharge-to-discharge to load-to-discharge. This would result in no revenue being recognized from discharge of the prior voyage to loading of the current voyage and all revenue being recognized from loading of the current voyage to discharge of the current voyage. In addition, the Company expects that the adoption of ASU 2014-09 will result in a change in the timing of the recognition of voyage expenses incurred during the period from discharge of the prior voyage to loading of the current voyage. The Company's current policy is to expense such costs as incurred, and following adoption of ASU 2014-09 it is expected such costs will be deferred and amortized over the load-to-discharge period. The Company

expects that these principles will also be applied to voyage charters that are included in revenue sharing arrangements and, consequently, a portion of the Company's monthly net revenue allocation from these revenue sharing arrangements will be deferred and recognized in future months. These changes will result in revenue and voyage expenses being recognized later than under the Company's existing revenue and expense recognition policies, which may cause additional volatility in revenue and earnings between periods. The Company is in the final stages of completing its assessment of ASU 2014-09 and is focused on developing process changes, determining the transitional impact and completing other items required for the adoption of ASU 2014-09.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (or ASU 2016-02). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company expects to adopt ASU 2016-02 on January 1, 2018. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company expects that the adoption of ASU 2016-02 will result in a change in accounting method for the lease portion of the daily charter hire for the Company's chartered-in vessels accounted for as operating leases and office leases with firm periods of greater than one year. Under ASU 2016-02, the Company will recognize a right-of-use asset and a lease liability on the balance sheet for these charters and office leases, whereas currently no right-of-use asset or lease liability is recognized. This will have the result of increasing the Company's assets and liabilities. The pattern of expense recognition of chartered-in vessels and office leases are expected to remain substantially unchanged, unless the right-of-use asset becomes impaired. The Company is in the final stages of completing its assessment of ASU 2016-02, and is focused on developing process changes, determining the transitional impact and completing other items required for the adoption of ASU 2016-02.

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, other than share and per share data)

In March 2016, the FASB issued Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting (or ASU 2016-09). ASU 2016-09 simplifies aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statements of cash flows. The Company adopted ASU 2016-09 on January 1, 2017 and the impact was immaterial. This new accounting guidance changed the presentation of cash payments for tax withholdings on share-settled equity awards from an operating cash outflow to financing cash outflow on the Company's statements of cash flows, and this change was applied retrospectively.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. This update replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for the Company on January 1, 2020, with a modified-retrospective approach. The Company is currently evaluating the effect of adopting this new guidance.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which, among other things, provides guidance on two acceptable approaches of classifying distributions received from equity method investees in the statements of cash flows. This update is effective for the Company on January 1, 2018, with a retrospective approach. The Company is currently evaluating the effect of adopting this new guidance.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows: Restricted Cash (or ASU 2016-18). ASU 2016-18 requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 is effective for the Company on January 1, 2018. Adoption of ASU 2016-18 will result in the Company's statements of cash flows to be modified to include changes in restricted cash in addition to changes in cash and cash equivalents.

In January 2017, the FASB issued Accounting Standards Update 2017-01, Clarifying the Definition of a Business, (or ASU 2017-01). ASU 2017-01 changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. ASU 2017-01 also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606. ASU 2017-01 is effective for annual reporting periods beginning after December 15, 2017, and for interim periods within those years. Early adoption is allowed. If the adoption of ASU 2017-01 is completed prior to the closing of Teekay Tankers' merger with TIL (see note 6c), this acquisition is expected to be accounted for as an asset acquisition, otherwise the acquisition is expected to be accounted for as a business combination. Unlike a business combination, no goodwill or bargain purchase gain is recognized as part of an asset acquisition.

3. Segment Reporting

The Company allocates capital and assesses performance both from the separate perspectives of its three publicly-traded subsidiaries Teekay Offshore Partners L.P. (or Teekay Offshore), Teekay LNG Partners, L.P. (or Teekay LNG), and Teekay Tankers Ltd. (or Teekay Tankers) (together, the Daughter Companies) and Teekay and its remaining subsidiaries (or Teekay Parent), as well as from the perspective of the Company's lines of business. The primary focus of the Company's organizational structure, internal reporting and allocation of resources by the chief operating decision maker is on the Daughter Companies and Teekay Parent (the Legal Entity approach) and its segments are presented accordingly on this basis. The Company has four primary lines of business: (1) offshore logistics (shuttle tankers, the HiLoad DP unit, floating storage and offtake (or FSO) units, units for maintenance and

safety (or UMS) and long-distance towing and offshore installation vessels), (2) offshore production (floating production, storage and off-loading (or FPSO) units), (3) liquefied gas carriers (liquefied natural gas (or LNG) and liquefied petroleum gas (or LPG) carriers) and (4) conventional tankers. The Company manages these businesses for the benefit of all stakeholders. The Company incorporates the primary lines of business within its segments, as in certain cases there is more than one line of business in each Daughter Company and the Company believes this information allows a better understanding of the Company's performance and prospects for future net cash flows.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, other than share and per share data)

The following table includes results for the Company's revenues by segment for the three and six months ended June 30, 2017 and 2016:

	Revenues			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Teekay Offshore				
Offshore Logistics <sup>(1)</sup>	151,080	155,095	310,527	320,205
Offshore Production	110,247	124,715	223,102	257,499
Conventional Tankers <sup>(1)</sup>	3,465	4,654	7,301	13,468
	264,792	284,464	540,930	591,172
Teekay LNG				
Liquefied Gas Carriers <sup>(1)</sup>	89,431	84,497	178,378	163,082
Conventional Tankers	11,473	14,744	23,706	31,930
	100,904	99,241	202,084	195,012
Teekay Tankers <sup>(2)</sup>				
Conventional Tankers <sup>(1)</sup>	108,789	145,738	239,274	317,047
Teekay Parent				
Offshore Production	48,173	58,600	92,515	113,806
Conventional Tankers <sup>(1)</sup>	1,757	9,534	3,924	23,584
Other	15,565	14,970	27,422	43,440
	65,495	83,104	123,861	180,830
Eliminations and other	(26,057)	(24,928)	(48,721)	(55,334)
	513,923	587,619	1,057,428	1,228,727

Certain vessels are chartered between the Daughter Companies and Teekay Parent. The amounts in the table below (1) represent revenue earned by each segment from other segments within the group. Such intersegment revenue for the three and six months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Teekay Offshore - Offshore Logistics	14,207	10,129	24,218	18,508
Teekay Offshore - Conventional Tankers	—	—	—	6,410
Teekay LNG - Liquefied Gas Carriers	8,564	8,933	17,555	18,646
Teekay Tankers - Conventional Tankers	—	2,453	—	4,988
	22,771	21,515	41,773	48,552

(2) On May 31, 2017, Teekay Tankers acquired from Teekay Parent the remaining 50% interest in Teekay Tanker Operations Ltd. (or TTOL); Teekay Tankers acquired its initial 50% interest in TTOL in August 2014. As a result

of the acquisition, the financial information for Teekay Tankers prior to the date that Teekay Tankers acquired its remaining 50% interest in TTOL is retroactively adjusted to include the results of TTOL during the periods they were under common control of Teekay and had begun operations.

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## TEEKAY CORPORATION AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, other than share and per share data)

The following table includes results for the Company's income (loss) from vessel operations by segment for the three and six months ended June 30, 2017 and 2016:

	Income (Loss) from Vessel Operations <sup>(1)</sup>			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Teekay Offshore				
Offshore Logistics	15,400	(11,954)	43,283	30,552
Offshore Production	31,601	36,412	64,581	76,024
Conventional Tankers	(783)	(187)	(1,188)	5,994
	46,218	24,271	106,676	112,570
Teekay LNG				
Liquefied Gas Carriers	40,043	42,484	83,379	82,673
Conventional Tankers	(10,172)	5,070	(7,430)	(18,136)
	29,871	47,554	75,949	64,537
Teekay Tankers <sup>(2)</sup>				
Conventional Tankers	1,587	32,948	12,328	89,772
Teekay Parent				
Offshore Production	(18,618)	(8,343)	(39,029)	(26,043)
Conventional Tankers	(2,988)	(12,176)	(5,447)	(13,281)
Other	(7,784)	(8,276)	(20,586)	(16,252)
	(29,390)	(28,795)	(65,062)	(55,576)
	48,286	75,978	129,891	211,303

(1) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources).

On May 31, 2017, Teekay Tankers acquired from Teekay Parent, the remaining 50% interest in TTOL; Teekay Tankers acquired its initial 50% interest in TTOL in August 2014. As a result of the acquisition, the financial information for Teekay Tankers prior to the date that Teekay Tankers acquired its remaining 50% interest in TTOL is retroactively adjusted to include the results of TTOL during the periods they were under common control of Teekay and had begun operations.

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A reconciliation of total segment assets to total assets presented in the accompanying unaudited consolidated balance sheets is as follows:

	June 30, 2017 \$	December 31, 2016 \$
Teekay Offshore - Offshore Logistics	2,660,051	2,677,784
Teekay Offshore - Offshore Production	2,643,055	2,672,100
Teekay Offshore - Conventional Tankers	3,800	4,818
Teekay LNG - Liquefied Gas Carriers	4,189,383	3,957,088
Teekay LNG - Conventional Tankers	155,938	193,553
Teekay Tankers - Conventional Tankers	1,716,171	1,870,211
Teekay Parent - Offshore Production	599,388	635,364
Teekay Parent - Conventional Tankers	30,870	55,937
Teekay Parent - Other	12,279	13,208
Cash and cash equivalents	600,881	567,994
Other assets not allocated	215,051	281,244
Eliminations	(56,435 )	(114,549 )
Consolidated total assets	12,770,432	12,814,752

## 4. Equity Financing Transactions of the Daughter Companies

During the six months ended June 30, 2017, two of the Company's publicly traded subsidiaries, Teekay Tankers and Teekay Offshore completed the following equity issuances:

	Number of shares / units #	Total Proceeds Received \$	Less: Teekay Corporation Portion \$	Offering Expenses \$	Net Proceeds Received from Non-controlling Interests \$
Six Months Ended June 30, 2017					
Teekay Tankers Continuous Offering Program	3,800,000	8,826	—	(305 )	8,521
Teekay Tankers Private Placement	2,155,172	5,000	(5,000 )	—	—
Teekay Tankers Direct Equity Placement <sup>(1)</sup>	13,775,224	25,897	(25,897 )	—	—
Teekay Offshore Private Placements <sup>(2)</sup>	6,330,785	29,332	(16,675 )	(212 )	12,445

(1) In May 2017, Teekay Tankers issued Class B common stock to the Company as consideration for its acquisition of the remaining 50% interest in TTOL.

In February 2017 and May 2017, respectively, Teekay Offshore issued common units (including the general partner's 2% proportionate capital contribution) as a payment-in-kind for the distributions on Teekay Offshore's Series C-1 and D Preferred Units and on Teekay Offshore's common units and general partner interest held by subsidiaries of Teekay.

In June 2016, Teekay Offshore agreed with Teekay that, until the Teekay Offshore's Norwegian Kroner (or NOK) bonds maturing in 2018 have been repaid, all cash distributions (other than with respect to distributions, if any, on incentive distribution rights) to be paid by Teekay Offshore to Teekay or its affiliates, including Teekay Offshore's general partner, will instead be paid in common units or from the proceeds of the sale of common units. Teekay Offshore issued Teekay 2.2 million common units (including the general partner's 2% proportionate capital



contribution) as a payment-in-kind for the distribution on Teekay Offshore's Series D Preferred Units, common units and general partner interest held by subsidiaries of Teekay.

In April 2017 and June 2017, respectively, Teekay Offshore issued common units (including the general partner's 2% proportionate capital contribution) as a payment-in-kind for the interest due on its \$200 million loan due to its affiliates. Teekay Offshore issued Teekay 1.7 million common units (including the general partner's 2% proportionate capital contribution) as a payment-in-kind for the loan interest.

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## 5. Vessel Charters

The minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at June 30, 2017, for the Company's chartered-in and chartered-out vessels were as follows:

Vessel Charters <sup>(1)</sup>	Remainder of 2017 (in millions of U.S. Dollars)	2018	2019	2020	2021
Charters-in – operating leases	48.8	61.5	42.2	23.7	1.4
Charters-in – capital leases <sup>(2)</sup>	56.2	138.9	119.5	110.5	97.9
	105.0	200.4	161.7	134.2	99.3
Charters-out – operating leases <sup>(3)</sup>	701.4	1,282.3	1,379.7	1,025.2	743.3
Charters-out – direct financing leases <sup>(4)</sup>	31.4	53.5	40.5	40.6	40.5
	732.8	1,335.8	1,420.2	1,065.8	783.8

Teekay LNG owns a 69% ownership interest in Teekay BLT Corporation (or the Teekay Tangguh Joint Venture), which is a party to operating leases whereby the Teekay Tangguh Joint Venture is leasing two LNG carriers (or the Tangguh LNG Carriers) to a third party, which is in turn leasing the vessels back to the joint venture. This table does not include Teekay LNG's minimum charter hire payments to be paid and received under these leases for the Tangguh LNG Carriers, which are described in Note 9 to the audited consolidated financial statements filed with (1) the Company's Annual Report on Form 20-F for the year ended December 31, 2016. Under the terms of the leasing arrangement for the Tangguh LNG Carriers, whereby the Teekay Tangguh Joint Venture is the lessee, the lessors claim tax depreciation on its lease of these vessels. As is typical in these types of leasing arrangements, tax and change of law risks are assumed by the lessee. Lease payments under the lease arrangements are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is entitled to increase the lease payments to maintain its agreed after-tax margin.

The carrying amount of tax indemnification guarantees of Teekay LNG relating to the leasing arrangement through the Teekay Tangguh Joint Venture as at June 30, 2017 was \$7.3 million (December 31, 2016 – \$7.5 million) and is included as part of other long-term liabilities in Teekay LNG's consolidated balance sheets. The tax indemnification is for the duration of the lease contracts with the third parties plus the years it would take for the lease payments to be statute barred, which will end in 2033 for the vessels. Although there is no maximum potential amount of future payments, the Teekay Tangguh Joint Venture may terminate the lease arrangement on a voluntary basis at any time. If the lease arrangement terminates, the Teekay Tangguh Joint Venture will be required to pay termination sums to the lessor sufficient to repay the lessor's investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation.

(2) As at June 30, 2017, Teekay LNG was a party, as lessee, to capital leases on two Suezmax tankers, the Teide Spirit and the Toledo Spirit. Under these capital leases, the owner has the option to require Teekay LNG to purchase the two vessels. The charterer, who is also the owner, also has the option to cancel the charter contracts and the cancellation options are first exercisable in November 2017 and August 2018, respectively. The amounts in the table above assume the owner will not exercise its options to require Teekay LNG to purchase either of the vessels from the owner, but rather assume the owner will cancel the charter contracts when the cancellation right is first exercisable (in November 2017 and August 2018, respectively) and sell the vessels to a third party, upon which the remaining lease obligations will be extinguished. On August 10, 2017, the charterer of the Teide Spirit gave formal notification to Teekay LNG of its intention to terminate its charter contract in November 2017, subject to certain

conditions being met and third party approvals being received.

Teekay LNG is also a party to capital leases on three LNG carriers, the Creole Spirit, the Oak Spirit and the Torben Spirit. Upon delivery of the Creole Spirit in February 2016, the Oak Spirit in July 2016 and the Torben Spirit in March 2017, Teekay LNG sold these vessels to a third party and leased them back under 10-year bareboat charter contracts ending in 2026 and 2027. The bareboat charter contracts are accounted for as capital leases. Teekay LNG guarantees the obligations of the bareboat charter contracts. In addition, the guarantee agreements require Teekay LNG to maintain minimum levels of tangible net worth and aggregate liquidity, and not to exceed a maximum amount of leverage.

As at June 30, 2017, Teekay LNG has sale-leaseback agreements in place for five of its eight LNG carrier newbuildings scheduled to deliver in 2017 and 2018, and at such dates, the buyers will take delivery and charter each respective vessel back to Teekay LNG. As at June 30, 2017, Teekay LNG had received \$172.6 million from the buyers, which has been recorded as current portion and long-term obligations under capital lease in the Teekay LNG's consolidated balance sheets, and the buyers are obligated to pay to Teekay LNG a further \$737.0 million for the remainder of 2017 to 2018.

The minimum scheduled future operating lease revenues do not include revenue generated from new contracts entered into after June 30, 2017, revenue from unexercised option periods of contracts that existed on June 30, (3) 2017, revenues from vessels in the Company's equity-accounted investments, or variable or contingent revenues.

Therefore, the minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues that may be recognized for any of the years.

The Tangguh LNG Carriers' time-charter contracts and the two bareboat charter contracts to Awilco LNG ASA (or Awilco) are accounted for as direct financing leases. In June 2017, Teekay LNG reached an agreement with Awilco to defer a portion of charter hire and extend the bareboat charter contracts and related purchase obligations (4) on both vessels to December 2019. This agreement has the effect of deferring between \$10,600 per day and \$20,600 per day per vessel from July 1, 2017 until December 2019, with such deferred amounts added to the purchase obligation amounts. As a result of the contract amendments, the charter contracts with Awilco will be reclassified to operating leases from direct finance leases upon the expiry of the original terms of the contracts with Awilco in November 2017 and August 2018.

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## 6. Asset Impairments and Vessel Sales

## a) Asset Impairments

During the three and six months ended June 30, 2016, Teekay Offshore canceled the UMS construction contracts for its two UMS newbuildings. As a result, the carrying value of these two UMS newbuildings were written down to \$nil. The Company's consolidated statements of loss for the three and six months ended June 30, 2016 include a \$43.7 million write-down related to these two UMS newbuildings. The write-down is included in the Company's Teekay Offshore Segment - Offshore Logistics.

## b) Loss on Sale of Vessels, Equipment and Other Operating Assets

The following tables show the loss on sale of vessels, equipment and other operating assets for the three and six months ended June 30, 2017 and 2016:

Segment	Asset Type	Completion of Sale Date	Loss on Sale of Vessels, Equipment and Other Assets Three Months Ended June 30,	
			2017 \$	2016 \$
Teekay LNG Segment - Conventional Tankers	Suezmax	<sup>(1)</sup>	(12,600 )	—
Teekay Tankers Segment - Conventional Tankers	Aframax	Jun-2017	(150 )	—
Teekay Parent Segment - Conventional Tankers	1 VLCC Tanker	Oct-2016	—	(12,536 )
Teekay Tankers Segment - Conventional Tankers	1 MR Tanker	Aug-2016	—	(6,420 )
Other			8	—
Total			(12,742 )	(18,956 )

Segment	Asset Type	Completion of Sale Date	Loss on Sale of Vessels, Equipment and Other Assets Six Months Ended June 30,	
			2017 \$	2016 \$
Teekay LNG Segment - Conventional Tankers	Suezmax	<sup>(1)</sup>	(12,600 )	—
Teekay Tankers Segment - Conventional Tankers	Aframax	Jun-2017	(2,743 )	—
Teekay Tankers Segment - Conventional Tankers	Suezmax	Mar-2017	(1,469 )	—
Teekay LNG Segment - Conventional Tankers	2 Suezmaxes	Apr/May-2016	—	(27,439 )
Teekay Parent Segment - Conventional Tankers	1 VLCC Tanker	Oct-2016	—	(12,536 )
Teekay Tankers Segment - Conventional Tankers	1 MR Tanker	Aug-2016	—	(6,420 )
Other			(357 )	(180 )
Total			(17,169 )	(46,575 )

(1) The sale of this vessel is expected to be completed in the third quarter of 2017 and the vessel was classified as held for sale at June 30, 2017.

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## c) Equity (loss) income

On May 31, 2017, Teekay Tankers entered into a merger agreement (or the Merger Agreement) to acquire the remaining 27.0 million issued and outstanding common shares of Tanker Investments Ltd. (or TIL), by way of a share-for-share exchange of 3.3 Teekay Tankers Class A common stock for each outstanding common stock of TIL. Teekay Tankers and Teekay Corporation currently own approximately 3.4 million and 2.5 million common shares, or 11.3% and 8.2% of TIL, respectively. As the Company accounts for its current investment in TIL under the equity method of accounting, the Company will be required to remeasure its previously held equity investment to fair value at the acquisition date. Historically, the Company had not recognized an other than temporary impairment in its equity investment in TIL as the Company expected to recover its value over the anticipated hold period. Based on the pending transaction, the Company has remeasured its investment in TIL to fair value at June 30, 2017 based on the TIL share price at that date, resulting in a write-down of \$48.6 million included in the Company's consolidated statements of loss, and included in equity (loss) income, for the three and six months ended June 30, 2017. If the merger transaction is completed, the Company will be required to again remeasure its equity investment in TIL to fair value based on the relative share exchange value at the date of the acquisition, which could result in an additional gain or loss. The transaction is subject to approval by TIL shareholders of the merger and approval by Teekay Tankers' shareholders of an increase in the authorized number of Teekay Tankers' Class A common shares, to permit the issuance of Class A common shares as merger consideration.

## 7. Long-Term Debt

	June 30, 2017	December 31, 2016
	\$	\$
Revolving Credit Facilities	1,142,235	1,119,808
Senior Notes (8.5%) due January 15, 2020	592,657	592,657
Norwegian Kroner-denominated Bonds due through 2021	637,395	628,257
U.S. Dollar-denominated Term Loans due through 2028	3,583,152	3,702,997
U.S. Dollar Bonds due through 2024	462,659	466,680
Euro-denominated Term Loans due through 2023	230,343	219,733
Total Principal	6,648,441	6,730,132
Unamortized discount and debt issuance costs	(75,519)	(90,586)
Total debt	6,572,922	6,639,546
Less current portion	(1,299,806)	(998,591)
Long-term portion	5,273,116	5,640,955

As of June 30, 2017, the Company had 11 revolving credit facilities (or the Revolvers) available, which, as at such date, provided for aggregate borrowings of up to \$1.4 billion, of which \$0.3 billion was undrawn. Interest payments are based on LIBOR plus margins; at June 30, 2017 and December 31, 2016, the margins ranged between 0.45% and 4.00%. The aggregate amount available under the Revolvers is scheduled to decrease by \$308.4 million (remainder of 2017), \$675.5 million (2018), \$43.0 million (2019), \$nil (2020) and \$365.0 million (thereafter). The Revolvers are collateralized by first-priority mortgages granted on 64 of the Company's vessels, together with other related security, and include a guarantee from Teekay or its subsidiaries for all outstanding amounts. Included in other security are 38.2 million common units of Teekay Offshore, 25.2 million common units of Teekay LNG and 16.8 million Class A common shares in Teekay Tankers, which secure a \$200.0 million credit facility.

The Company's 8.5% senior unsecured notes are due January 15, 2020 with an original principal amount of \$450 million (the Original Notes). The Original Notes issued on January 27, 2010 were sold at a price equal to 99.181% of par. In November 2015, the Company issued an aggregate principal amount of \$200 million of the Company's 8.5%

senior unsecured notes due on January 15, 2020 (or the Notes) at 99.01% of face value, plus accrued interest from July 15, 2015. The Notes are an additional issuance of the Company's Original Notes (cumulatively referred to as the 8.5% Notes). The Notes were issued under the same indenture governing the Original Notes, and are fungible with the Original Notes. The discount on the 8.5% Notes is accreted through the maturity date of the notes using the effective interest rate of 8.670% per year.

The Company capitalized issuance costs of \$13.3 million which will be amortized to interest expense over the term of the 8.5% Notes. As of June 30, 2017, the unamortized balance of the capitalized issuance cost was \$4.7 million which is recorded in long-term debt in the unaudited consolidated balance sheet. The 8.5% Notes rank equally in right of payment with all of Teekay's existing and future senior unsecured debt and senior to any future subordinated debt of Teekay. The 8.5% Notes are not guaranteed by any of Teekay's subsidiaries and effectively rank behind all existing and future secured debt of Teekay and other liabilities of its subsidiaries.

The Company may redeem the 8.5% Notes in whole or in part at any time before their maturity date at a redemption price equal to the greater of (i) 100% of the principal amount of the 8.5% Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled

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payments of principal and interest on the 8.5% Notes to be redeemed (excluding accrued interest), discounted to the redemption date on a semi-annual basis, at the treasury yield plus 50 basis points, plus accrued and unpaid interest to the redemption date.

Teekay Offshore and Teekay LNG have a total of NOK 5.3 billion in senior unsecured bonds in the Norwegian bond market at June 30, 2017 that mature through October 2021. As of June 30, 2017, the total carrying amount of the senior unsecured bonds was \$637.4 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus margins which range from 3.70% to 6.00%. The Company entered into cross currency rate swaps to swap all interest and principal payments of the bonds into U.S. Dollars, with the interest payments fixed at rates ranging from 5.92% to 8.84%, and the transfer of the principal amount fixed at \$807.2 million upon maturity in exchange for NOK 5.3 billion (see Note 13).

In June 2016, Teekay Offshore amended certain of the bond agreements to extend the maturity dates of the senior unsecured bonds. The maturity date for bonds in an aggregate principal amount of NOK 600 million was extended to November 2018, with two interim installments of NOK 180 million each due in October 2016 and October 2017, with the remaining balance of NOK 240 million repayable in November 2018 at 103.0%. The maturity date for bonds in an aggregate principal amount of NOK 800 million was extended to December 2018, with one interim installment of NOK 160 million in January 2018 with the remaining balance of NOK 640 million repayable in December 2018 at 103.0%.

As of June 30, 2017, the Company had 25 U.S. Dollar-denominated term loans outstanding, which totaled \$3.6 billion in aggregate principal amount (December 31, 2016 – \$3.7 billion). Certain of the term loans with a total outstanding principal balance of \$68.7 million as at June 30, 2017 (December 31, 2016 – \$58.3 million) bear interest at a weighted-average fixed rate of 2.9% (December 31, 2016 – 2.9%). Interest payments on the remaining term loans are based on LIBOR plus a margin. At June 30, 2017, the margins ranged between 0.30% and 4.5% (December 31, 2016, the margins ranged between 0.30% and 3.75%). The term loan payments are made in quarterly or semi-annual payments commencing three or six months after delivery of each newbuilding vessel financed thereby, and 20 of the term loans have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 49 (December 31, 2016 – 46) of the Company's vessels, together with certain other security. In addition, at June 30, 2017, all but \$55.3 million (December 31, 2016 – \$56.2 million) of the outstanding term loans were guaranteed by Teekay or its subsidiaries.

During May 2014, Teekay Offshore issued \$300 million of five-year senior unsecured bonds that mature in July 2019 in the U.S. bond market. As of June 30, 2017, the carrying amount of the bonds was \$300 million. The bonds are listed on the New York Stock Exchange. The interest payments on the bonds are fixed at a rate of 6.0%.

In September 2013 and November 2013, Teekay Offshore issued a total of \$174.2 million of ten-year senior bonds that mature in December 2023 and that were issued in a U.S. private placement to finance the Bossa Nova Spirit and the Sertanejo Spirit shuttle tankers. The bonds accrue interest at a fixed combined rate of 4.96%. The bonds are collateralized by first-priority mortgages on the two vessels to which the bonds relate, together with other related security. Teekay Offshore makes semi-annual repayments on the bonds and as of June 30, 2017, the carrying amount of the bonds was \$140.7 million.

In February 2015, Teekay Offshore issued \$30.0 million in senior bonds that mature in June 2024 in a U.S. private placement. As of June 30, 2017, the carrying amount of the bonds was \$22.0 million. The interest payments on the bonds are fixed at an annual rate of 4.27%. The bonds are collateralized by a first-priority mortgage on the Dampier Spirit FSO unit to which the bonds relate, together with other related security and are guaranteed by two subsidiaries of Teekay Offshore.

Teekay LNG has two Euro-denominated term loans outstanding, which, as at June 30, 2017, totaled 201.6 million Euros (\$230.3 million) (December 31, 2016 – 208.9 million Euros (\$219.7 million)). Teekay LNG is repaying the loans with funds generated by two Euro-denominated, long-term time-charter contracts. Interest payments on the loans are based on EURIBOR plus margins. At June 30, 2017 and December 31, 2016, the margins ranged between 0.60% and

2.25%. The Euro-denominated term loans reduce in monthly payments with varying maturities through 2023, are collateralized by first-priority mortgages on two of Teekay LNG's vessels, together with certain other security, and are guaranteed by Teekay LNG and one of its subsidiaries.

Both the Euro-denominated term loans and the NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Company's NOK-denominated bonds, the Company's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Company's cross currency swaps, the Company recognized foreign exchange losses of \$17.3 million (2016 - \$15.2 million) and \$20.2 million (2016 - \$25.7 million) during the three and six months ended June 30, 2017 and 2016, respectively.

The weighted-average interest rate on the Company's aggregate long-term debt as at June 30, 2017 was 4.0% (December 31, 2016 – 4.0%). This rate does not include the effect of the Company's interest rate swap agreements (see Note 13).

Teekay has guaranteed obligations pursuant to certain credit facilities of Teekay Tankers and Teekay Offshore. As at June 30, 2017, the aggregate outstanding balance on such credit facilities was \$142.8 million and \$331.2 million, respectively. Subsequent to June 30, 2017, as part of the anticipated closing of the strategic partnership with Brookfield (see note 16b), Teekay expects to be released from all of its guarantees relating to Teekay Offshore's long-term debt and interest rate swap and cross currency swap agreements.

The aggregate annual long-term debt principal repayments required to be made by the Company subsequent to June 30, 2017, are \$0.7 billion (remainder of 2017), \$1.7 billion (2018), \$1.0 billion (2019), \$1.3 billion (2020), \$0.9 billion (2021) and \$1.0 billion (thereafter).



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Among other matters, the Company's long-term debt agreements generally provide for maintenance of minimum consolidated financial covenants and 11 loan agreements require the maintenance of vessel market value to loan ratios. As at June 30, 2017, these ratios ranged from 113.3% to 292.5% compared to their minimum required ratios of 105.0% to 135.0%. The vessel values used in these ratios are the appraised values prepared by the Company based on second hand sale and purchase market data. Changes in the LNG/LPG carrier, conventional tanker, FPSO, shuttle tanker, towage and UMS markets could negatively affect the Company's compliance with these ratios. Certain loan agreements require that a minimum level of free cash be maintained and as at June 30, 2017 and December 31, 2016, this amount was \$50.0 million for the Company, excluding Teekay Offshore and Teekay LNG. Most of the loan agreements also require that the Company maintain an aggregate minimum level of free liquidity and undrawn revolving credit lines with at least six months to maturity of 5.0% of total debt for either Teekay Parent, Teekay Offshore or Teekay Tankers, which as at June 30, 2017, such amounts were \$64.3 million, \$157.2 million and \$41.1 million, respectively. In addition, certain loan agreements require Teekay LNG to maintain a minimum level of tangible net worth and liquidity, and not exceed a maximum level of financial leverage. As at June 30, 2017, the Company was in compliance with all covenants under its credit facilities and other long-term debt.

8. Capital Stock

The authorized capital stock of Teekay at June 30, 2017 and December 31, 2016 was 25 million shares of preferred stock, with a par value of \$1 per share, and 725 million shares of common stock, with a par value of \$0.001 per share. As at June 30, 2017, Teekay had no shares of preferred stock issued.

During the six months ended June 30, 2017, Teekay issued 0.1 million shares of common stock pursuant to stock options, restricted stock units and restricted stock awards.

During the six months ended June 30, 2017 and 2016, the Company granted 731,405 and 916,015 stock options with exercise prices of \$10.18 and \$9.44 per share, respectively, 343,330 and 238,609 restricted stock units with fair values of \$3.5 million and \$2.3 million, respectively, nil and 311,691 performance share units with fair values of \$nil and \$3.6 million, respectively, and 83,739 and 67,000 shares of restricted stock awards with fair values of \$0.9 million and \$0.6 million, respectively, to certain of the Company's employees and directors. Each stock option has a ten-year term and vests equally over three years from the grant date. Each restricted stock unit, restricted stock award and performance share unit is equal in value to one share of the Company's common stock plus reinvested dividends from the grant date to the vesting date. The restricted stock units vest equally over three years from the grant date and the performance share units vest three years from the grant date. Upon vesting, the value of the restricted stock units, restricted stock awards and performance share units are paid to each grantee in the form of shares or cash. The number of performance share units that vest will range from zero to a multiple of the original number granted, based on certain performance and market conditions.

The weighted-average grant-date fair value of stock options granted during March 2017 was \$4.71 per stock option. The fair value of each stock option granted was estimated on the grant date using the Black-Scholes option pricing model. The following weighted-average assumptions were used in computing the fair value of the stock options granted: expected volatility of 62.4%; expected life of 5.5 years; dividend yield of 2.5%; risk-free interest rate of 2.0%; and estimated forfeiture rate of 7.4%. The expected life of the stock options granted was estimated using the historical exercise behavior of employees. The expected volatility was generally based on historical volatility as calculated using historical data during the five years prior to the grant date.

Share-based Compensation of Subsidiaries

During the six months ended June 30, 2017 and 2016, 56,950 and 76,084 common units of Teekay Offshore, 17,345 and 32,723 common units of Teekay LNG and nil and 9,358 shares of Class A common stock of Teekay Tankers, respectively, with aggregate values of \$0.6 million and \$0.7 million, respectively, were granted and issued to the non-management directors of the general partners of Teekay Offshore and Teekay LNG and the non-management directors of Teekay Tankers as part of their annual compensation for 2017 and 2016.

Teekay Offshore, Teekay LNG and Teekay Tankers grant equity-based compensation awards as incentive-based compensation to certain employees of Teekay's subsidiaries that provide services to Teekay Offshore, Teekay LNG and Teekay Tankers. During March 2017 and 2016, Teekay Offshore and Teekay LNG granted phantom unit awards and Teekay Tankers granted restricted stock-based compensation awards with respect to 321,318 and 601,368 common units of Teekay Offshore, 60,809 and 132,582 common units of Teekay LNG and 382,437 and 279,980 Class A common shares of Teekay Tankers, respectively, with aggregate grant date fair values of \$3.5 million and \$4.9 million, respectively, based on Teekay Offshore, Teekay LNG and Teekay Tankers' closing unit or stock prices on the grant dates. Each phantom unit or restricted stock unit is equal in value to one of Teekay Offshore's, Teekay LNG's or Teekay Tankers' common units or common shares plus reinvested distributions or dividends from the grant date to the vesting date. The awards vest equally over three years from the grant date. Upon vesting, the awards are paid to a substantial majority of the grantees in the form of common units or common shares, net of withholding tax. During March 2017, Teekay Tankers granted 486,329 and 396,412 stock options with an exercise price of \$2.23 per share to officers and non-management directors of Teekay Tankers, respectively. Each stock option granted in March 2017 has a ten-year term and vests equally over three years from the grant date. During March 2016, Teekay Tankers granted 216,043 stock options with an exercise price of \$3.74 per share to an officer of Teekay Tankers. Each stock option granted in March 2016 has a ten-year term and vests equally over three years from the grant date.

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## 9. Commitments and Contingencies

## a. Vessels Under Construction

As at June 30, 2017, the Company was committed to the construction of eight LNG carriers, two long-haul towage vessels, three shuttle tankers, one FSO conversion and one FPSO upgrade for a total cost of approximately \$2.8 billion, including capitalized interest and other miscellaneous construction costs. Vessels in which the Company holds an interest through non-consolidated joint ventures are excluded from the above amounts and are described in Note 9b. Two LNG carriers are scheduled for delivery in late-2017, four LNG carriers are scheduled for delivery in 2018 and two LNG carriers are scheduled for delivery in 2019. Two long-distance towing and offshore installation vessels are scheduled for delivery during late-2017 and early-2018, three shuttle tankers are expected to be delivered in late-2017 through early-2018, the one FSO conversion is scheduled to commence operations in the fourth quarter of 2017 and the one FPSO upgrade is scheduled to commence operations in early-2018. As at June 30, 2017, payments made towards these commitments totaled \$1.1 billion. As at June 30, 2017, the remaining payments required to be made under these newbuilding and conversion capital commitments were \$853.8 million (remainder of 2017), \$632.9 million (2018), and \$249.1 million (2019).

## b. Joint Ventures

Teekay LNG's share of commitments to fund newbuilding and other construction contract costs of its equity-accounted joint ventures as at June 30, 2017 are as follows:

	Total	Remainder of 2017	2018	2019	2020
	\$	\$	\$	\$	\$
Equity-accounted joint ventures <sup>(i)</sup>	1,316,080	248,879	563,618	305,833	197,750

The commitment amounts relating to Teekay LNG's share of costs for newbuilding and other construction contracts in Teekay LNG's equity-accounted joint ventures are based on Teekay LNG's ownership percentage in each respective joint venture as of June 30, 2017. These commitments are described in more detail in Note 15 of the (i) Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year-ended December 31, 2016. As of June 30, 2017, based on the Teekay LNG's ownership percentage in each respective joint venture, Teekay LNG's equity-accounted joint ventures have secured \$384.0 million of financing related to the remaining commitments included in the table above.

In October 2014, Teekay Offshore sold a 1995-built shuttle tanker, the Navion Norvegia, to a 50/50 joint venture of Teekay Offshore and Odebrecht Oil and Gas S.A. (or OOG) on behalf of its field license partners. The vessel was converted into a new FPSO for the Libra field located in the Santos Basin offshore Brazil. The conversion project has been completed at Sembcorp Marine's Jurong Shipyard in Singapore and the FPSO unit is scheduled to commence operations in the third quarter of 2017 under a 12-year fixed-rate contract with a consortium led by Petroleo Brasileiro SA (or Petrobras). The FPSO conversion is expected to cost approximately \$1.0 billion. As at June 30, 2017, payments made by the joint venture towards these commitments totaled \$881.4 million and the remaining payments required to be made by the joint venture are \$123.2 million (2017). The joint venture secured a long-term debt facility in 2015 providing total borrowings of up to \$804.0 million for the FPSO conversion, of which \$90.1 million was undrawn as at June 30, 2017.

## c. Liquidity

Management is required to assess if the Company will have sufficient liquidity to continue as a going concern for the one-year period following the issuance of its financial statements. The Company had a consolidated net loss of \$113.8 million and consolidated cash flows from operating activities of \$281.7 million during the six months ended June 30, 2017, and ended the second quarter of 2017 with a working capital deficit of \$895.6 million. This working capital deficit is driven primarily from scheduled maturities in the next 12 months and repayments of outstanding

consolidated debt of approximately \$1.3 billion, which were classified as current liabilities as at June 30, 2017. In addition to these obligations, the Company also anticipates that Teekay LNG and Teekay Offshore will be required to make payments related to commitments to fund vessels under construction or undergoing conversions/upgrades (see Notes 9a and 9b).

Based on these factors, over the one-year period following the issuance of its unaudited consolidated financial statements, the Company's consolidated subsidiaries Teekay Tankers, Teekay LNG and Teekay Offshore will need to obtain additional sources of financing, in addition to amounts generated from operations, to meet the minimum liquidity requirements under the financial covenants related to these subsidiaries. These anticipated sources of financing include: refinancing and increasing amounts available under various loan facilities of Teekay Tankers, Teekay LNG and Teekay Offshore; negotiating new secured debt financings related to vessels under construction or other unencumbered operating vessels for Teekay LNG and Teekay Offshore; raising additional capital through equity and bond issuances; and negotiating extensions or redeployments of existing assets. Teekay Offshore recently announced a strategic partnership to strengthen Teekay Offshore's capital structure and to finance unfunded capital expenditures (see note 16b). Teekay Tankers recently announced a proposed merger with TIL which, upon completion, is expected to increase Teekay Tankers' liquidity. The success of these initiatives of the Daughter Companies may impact the liquidity of Teekay Parent as a result of certain guarantees provided by Teekay Parent and through the payment of dividends/distributions by the Daughter Companies to Teekay Parent.

The Company is actively pursuing the alternatives described above, which it considers probable of completion based on the Company's history of being able to complete equity and bond issuances, refinance similar loan facilities and to obtain new debt financing for its vessels under construction, as well as the progress it has made on the financing process to date. The Company is in various stages of completion on these matters.

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Based on the Company's liquidity at the date these unaudited consolidated financial statements were issued, the liquidity it expects to generate from operations over the following year, and by incorporating the Company's plans to raise additional liquidity that it considers probable of completion, the Company estimates that it will have sufficient liquidity to continue as a going concern for at least the one-year period following the issuance of these unaudited consolidated financial statements.

d. Legal Proceedings and Claims

The Company may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. The Company believes that any adverse outcome of existing claims, other than with respect to the items noted below, individually or in the aggregate, would not have a material effect on its financial position, results of operations or cash flows, when taking into account its insurance coverage and indemnifications from charterers.

Cancellation of two UMS newbuilding contracts

In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel Offshore Holding AS (or Logitel), a Norway-based company focused on high-end UMS. As part of this transaction, Teekay Offshore assumed three UMS newbuilding contracts ordered from the COSCO (Nantong) Shipyard (or COSCO) in China. Teekay Offshore took delivery of one of the UMS newbuildings, the Arendal Spirit, in February 2015.

In June 2016, Teekay Offshore canceled the UMS construction contracts for the two remaining UMS newbuildings, the Stavanger Spirit and Nantong Spirit. As a result of this cancellation during the second quarter of 2016, Teekay Offshore wrote-off \$43.7 million of the assets related to these newbuildings and reversed contingent liabilities of \$14.5 million associated with the delivery of these assets. The estimate of potential damages for the cancellation of the Stavanger Spirit newbuilding contract is based on the amount due for the final yard installment of approximately \$170 million less the estimated fair value of the Stavanger Spirit. Given the unique design of the vessel as well as the lack of recent sale and purchase transactions for this type of asset, the value of this vessel, and thus ultimately the amount of potential damages that may result from the cancellation, is uncertain. Pursuant to the Stavanger Spirit newbuilding contract and related agreements, COSCO only has recourse to the single-purpose subsidiary that is a party to the Stavanger Spirit newbuilding contract and its immediate parent company, Logitel Offshore Pte. Ltd., for damages incurred.

The estimate of potential damages for the cancellation of the Nantong Spirit newbuilding contract is based upon estimates of a number of factors, including accumulated costs incurred by COSCO, sub-supplier contract cancellation costs, as well as how such costs are treated under the termination provisions in the contract. Teekay Offshore estimates that the amount of potential damages related to the cancellation of the Nantong Spirit contract could range between \$10 million and \$40 million. Pursuant to the Nantong Spirit newbuilding contract, COSCO only has recourse to the single-purpose subsidiary that is a party to the Nantong Spirit newbuilding contract. During June 2017, Logitel Offshore Rig III LLC, the single purpose subsidiary related to the Nantong Spirit, received a claim from COSCO for \$51.9 million for the unpaid balance for work completed, cancellation costs and damages. Logitel Offshore Rig III LLC is disputing this claim.

During September 2016, Sevan Marine ASA (or Sevan) commenced an action against Logitel in the Oslo District Court. The action relates to the agreements between Sevan and CeFront Technology AS (or CeFront), related to the 2013 transfer by Sevan to Logitel Offshore Pte. Ltd. or its wholly-owned subsidiaries (collectively, Logitel Offshore) of two hulls to be converted into UMS, including the \$60 million bond loan (of which \$41 million was a vendor credit and \$19 million was a cash loan, and of which \$50 million remains outstanding) granted by a Sevan affiliate to Logitel (or the 2013 Transaction). The action also relates to agreements between Sevan and Teekay Offshore entered into in connection with Teekay Offshore's acquisition of Logitel from CeFront in 2014 (or the 2014 Transaction). Sevan has claimed that the \$60 million bond loan to Logitel contravened certain provisions of the Norwegian corporate law and that, Sevan is entitled to the remaining payment of \$50 million plus interest set at the court's discretion. Logitel is disputing these claims. Sevan only has recourse to Logitel Offshore for these claims. In addition, Sevan has presented

Logitel Offshore with a formal notice of claim and request for arbitration seeking \$10 million for license and services fees, which Sevan claims is payable in connection with the delivery of the Arendal Spirit UMS, for which liability may arise with subsidiaries of Teekay Offshore. The parties have convened an arbitration tribunal in Oslo and Sevan has served submissions of claim. The claim has been fixed for trial in late-August 2017.

In addition, in September 2016, CeFront commenced an action against subsidiaries of Teekay Offshore in the Oslo District Court, claiming that \$3.8 million is due under a management agreement as at June 30, 2017. CeFront also claims that \$3.3 million is due for the earn-out provisions of the contracts related to the Arendal Spirit and \$20.2 million is due or will become due related to the earn-out provisions of the contracts for the Stavanger Spirit and Nantong Spirit. Teekay Offshore is defending these claims based on its interpretation of the agreement. Teekay Offshore is uncertain as to the ultimate resolution of these claims.

As at June 30, 2017, Teekay Offshore's subsidiaries have accrued \$69.3 million in the aggregate related to the above claims and potential claims related to Logitel from Sevan, COSCO and CeFront.

#### Piranema Spirit FPSO Contract

In March 2016, Petrobras claimed that Teekay Offshore's November 2011 cessation of paying certain agency fees with respect to the Piranema Spirit FPSO unit's charter contract should have resulted in a corresponding 2% rate reduction on the FPSO contract with Petrobras. Teekay Offshore has estimated the maximum amount of the claim at \$10.9 million. As at June 30, 2017, Teekay Offshore had accrued \$9.6 million (\$5.4 million as at December 31, 2016) calculated from the potential return of 2% of the charter hire previously paid by Petrobras to Teekay Offshore on the charter contract for the period from October 2007 up to June 30, 2017. The remaining \$1.3 million will be accrued as a 2% reduction of future charter hire to the end of the firm period of the FPSO contract with Petrobras.

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Petrojarl Knarr FPSO

In October 2016, Teekay Offshore received a claim from Royal Dutch Shell Plc (or Shell) for liquidated damages of \$23.6 million based on Shell's allegation that the Petrojarl Knarr FPSO did not meet the conditions for achieving the completion milestone on time. Shell is also claiming that the inability of Teekay Offshore to meet the completion milestone date within the specified grace period has in effect resulted in a 20% reduction in the price Shell may purchase the Petrojarl Knarr FPSO from Teekay Offshore pursuant to a purchase option agreement. In the counterclaim, Teekay Offshore has alleged that Offshore Completion was achieved after the milestone but within the grace period and that Shell had caused delays due to certain defaults in Shell's specifications, as well as other events. It is Teekay Offshore's position that, due to delays caused by Shell, Teekay Offshore is entitled to the daily lease rate for the unit for a period of time prior to when Shell actually started paying such rate and that Shell is not entitled to a reduction in the purchase option price. The duration of the period that Teekay Offshore claims to be entitled to receive additional daily lease payments is in dispute. However, Teekay Offshore expects that the amount of its claim relating to the counterclaim will exceed Shell's claim for liquidated damages. Nevertheless, uncertainty exists as to the resolution of the claims, for which Teekay Offshore has commenced commercial negotiations with Shell and an estimate of the possible net loss or range of net loss cannot be made at this time. As of June 30, 2017, Teekay Offshore had not accrued for any potential liability relating to these claims.

Arendal Spirit UMS

In early-November 2016, the Arendal Spirit UMS experienced an operational incident relating to its dynamic positioning system. As a result of this operational incident, and a gangway incident that occurred in April 2016, the charterer, Petroleo Netherlands B.V., initiated an operational review and suspended its charter hire payments beginning in November 2016. Teekay Offshore has completed an investigation to identify the cause of such incidents and implemented corrective actions. Nevertheless, in late-April 2017, Petroleo Netherlands B.V. notified Logitel Offshore Norway AS, a subsidiary of Teekay Offshore, that Petroleo Netherlands B.V. was terminating the charter contract for the Arendal Spirit UMS and would not pay the charter hire payments from November 2016. Teekay Offshore has disputed the grounds for termination and is reviewing its legal options, including the initiation of a claim for unpaid standby fees and damages for wrongful termination of the time-charter contract. The unit is currently being demobilized after which it will proceed into lay-up.

Towage of the Ocean Winner

In February 2017, Teekay Offshore received a notice from Transocean Offshore International Ventures Limited (or Transocean) that it intends to file a claim against Teekay Offshore arising from the towage of the Transocean Winner oil rig by one of Teekay Offshore's towage vessels, the ALP Forward. Transocean intends to file a claim to recover losses it claims to have incurred relating to the grounding of the Transocean Winner in August 2016, including the costs associated with the salvage and replacement tow and other costs payable by Transocean as a result of this incident. Teekay Offshore intends to dispute these claims, and also believes that any such claims would be covered by insurance. As of June 30, 2017, Teekay Offshore had not accrued for any potential liability relating to these claims. An estimate of the possible loss or range of loss cannot be made at this time.

Damen Shipyard Group

In December 2014, Teekay Offshore acquired the Petrojarl I FPSO unit from Teekay Corporation for \$57 million. The Petrojarl I is undergoing upgrades at the Damen Shipyard Group's DSR Schiedam Shipyard (or Damen) in the Netherlands with an estimated total cost of approximately \$380 million, which includes the cost of acquiring the Petrojarl I. The FPSO is expected to commence operations in early-2018 under a five-year charter contract with Queiroz Galvão Exploração e Produção SA (or QGEP). As at June 30, 2017, payments made towards these

commitments, including the acquisition of the Petrojarl I FPSO unit from Teekay Corporation, totaled \$285.7 million and the remaining costs are estimated to be approximately \$94.3 million (remainder of 2017). Teekay Offshore has financed \$171.2 million of the Petrojarl I FPSO upgrade cost through a fully-drawn long-term loan. Due to project delays in the delivery of the unit resulting from shipyard delays, an increased scope of work relating to field-specific requirements and the age of the unit, in July 2017, Teekay Offshore agreed with QGEP to a revised delivery date of late-2017, revised charter acceptance date of early-2018 and other amendments to the terms of the charter agreement. Teekay Offshore is currently in discussions with Damen as to the timing of delivery. The lenders agreed to extend the availability date of the loan for several successive periods up to September 15, 2017, as the loan was subject to a mandatory prepayment provision, initially in early October 2016, if the unit was not accepted at that time by QGEP. These interim extensions provide additional time for Teekay Offshore to negotiate a revised schedule for the delivery of the unit with both the charterer and the shipyard and thereafter, amend the loan facility to reflect the revised delivery schedule. As at June 30, 2017 and December 31, 2016, Teekay Offshore had \$60 million held in escrow to fund the final upgrade costs. This amount is presented in restricted cash on the unaudited consolidated balance sheet.



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Gina Krog FSO unit

In May 2013, Teekay Offshore entered into an agreement with Statoil ASA (or Statoil), on behalf of the field license partners, to provide an FSO unit for the Gina Krog oil and gas field located in the North Sea (see Note 9a). The contract will be serviced by a new FSO unit that was converted from the Randgrid shuttle tanker, which Teekay Offshore purchased in August 2015 from a 67%-owned subsidiary. The FSO conversion project is expected to cost approximately \$358 million, including amounts reimbursable upon delivery of the unit relating to installation and mobilization. As at June 30, 2017, payments made towards this commitment totaled \$293.7 million and the remaining payments required to be made are approximately \$64.1 million (remainder of 2017). The FSO unit is due to commence operations in the fourth quarter of 2017 under a three-year time-charter contract to Statoil, which includes 12 additional one-year extension options. In December 2015, Teekay Offshore secured a long-term debt facility providing total borrowings up to \$230 million to finance the conversion project, of which \$7.4 million was undrawn as at June 30, 2017. Teekay Offshore has disputed several variation orders received from Sembcorp Marine Ltd., the shipyard which completed the conversion of the FSO unit. Teekay Offshore estimates that its exposure ranges from \$nil and \$20.0 million; however, as at June 30, 2017, Teekay Offshore has not accrued for any potential liability related to these disputes given Teekay Offshore's interpretation of the yard contract and the quantum of counter-claims Teekay Offshore considers available to it.

Class Action Complaint

Following the Company's announcement in December 2015 that Teekay's Board of Directors had reduced the Company's quarterly dividend to \$0.055 per share, down from a dividend of \$0.55 per share in the fourth quarter of 2015 dividend payable in February 2016 and the subsequent decline of the price of the Company's common stock, a class action complaint was filed on March 1, 2016 in the U.S. District Court for the District of Connecticut against the Company and certain of its officers. As a result of the Company's motion to transfer the action, the case was transferred to the U.S. District Court for the Western District of Washington on November 18, 2016. The lead plaintiff in the action filed an Amended Class Action Complaint on January 13, 2017. The Amended Complaint includes claims that the Company and certain of its officers violated Section 10(b) of the U.S. Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The Amended Complaint alleges that the Company and certain of its officers violated U.S. federal securities laws by making materially false and misleading statements regarding the Company's ability and intention to increase its future dividends beyond the initial dividend increase to \$0.55 per share that the Company announced in September 2014 and first declared in the second quarter of 2015, thereby artificially inflating the price of its common stock. The lead plaintiff is seeking unspecified monetary damages, including reasonable costs and expenses incurred in this action. The Company is vigorously defending against the claims. The Company filed a motion to dismiss the Amended Complaint on March 14, 2017. The lead plaintiff filed an opposition to the Company's motion to dismiss on May 16, 2017 and the Company filed a reply in support of motion to dismiss the Amended Class Action Complaint on June 14, 2017. The Company expects a ruling within six months from the filing of the reply brief. Both sides have requested oral argument at the discretion of the judge. If the Court schedules a hearing, the Company expects the hearing to take place in the third quarter of 2017. Based on the current stage of this action and the Company's evaluation of the facts available at this time, the amount or range of reasonably possible losses to which the Company is exposed cannot be estimated and the ultimate resolution of this matter and the associated financial impact to the Company, if any, remains uncertain at this time. The Company maintains a Directors and Officers insurance policy that provides a fixed amount of coverage for such claims, subject to coverage defenses, and a deductible to be paid by the Company.

Teekay Nakilat Capital Lease

Teekay LNG owns a 70% interest in Teekay Nakilat Corporation (or Teekay Nakilat Joint Venture) that was the lessee under three separate 30-year capital lease arrangements with a third party for the three LNG carriers (or the RasGas II LNG Carriers). Under the terms of the leasing arrangements in respect of the RasGas II LNG Carriers, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks were assumed by the lessee, in this case the Teekay Nakilat Joint Venture. Lease payments under the lease arrangements were based on certain tax and financial assumptions at the commencement of the leases and subsequently adjusted to maintain its agreed after-tax margin. On December 22, 2014, the Teekay Nakilat Joint Venture terminated the leasing arrangements of the RasGas II LNG Carriers. However, the Teekay Nakilat Joint Venture remains obligated to the lessor to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date and placed \$6.8 million on deposit with the lessor as security against any future claims, which deposit is recorded as part of restricted cash - non-current in the Company's unaudited consolidated balance sheets.

The UK taxing authority (or HMRC) has been challenging the use of similar lease structures in the UK courts. One of those challenges was eventually decided in favor of HMRC (Lloyds Bank Equipment Leasing No. 1 or LEL1), with the lessor and lessee choosing not to appeal the decision further. The LEL 1 tax case concluded that capital allowances were not available to the lessor. On the basis of this conclusion, HMRC is now asking lessees on other leases, including the Teekay Nakilat Joint Venture, to accept that capital allowances are not available to their lessor. The Teekay Nakilat Joint Venture does not accept this contention and has informed HMRC of this position. It is not known at this time whether the Teekay Nakilat Joint Venture would eventually prevail in court. If the former lessor of the RasGas II LNG Carriers were to lose on a similar claim from HMRC, Teekay LNG's 70% share of the potential exposure is estimated to be approximately \$42 million. Such estimate is primarily based on information received from the lessor.

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e. Redeemable Non-Controlling Interest

In July 2015, Teekay Offshore issued 10.4 million of its 8.60% Series C Cumulative Convertible Perpetual Preferred Units (or Series C Preferred Units) in a private placement for net proceeds of approximately \$249.8 million. The terms of the Series C Preferred Units provided that at any time after the 18-month anniversary of the closing date, at the election of each holder, the Series C Preferred Units could be converted on a one-for-one basis into common units of Teekay Offshore. In addition, if after the three-year anniversary of the closing date, the volume weighted average price of the common units exceeded \$35.925, Teekay Offshore had the option to convert the Series C Preferred Units into common units. Distributions on the Series C Preferred Units were cumulative from the date of original issue and are payable quarterly in arrears, when, as and if declared by the board of directors of the general partner. The Series C Preferred Units could be redeemed in cash if a change of control occurred in Teekay Offshore.

In June 2016, Teekay Offshore and the unitholders of the Series C Preferred Units exchanged approximately 1.9 million of the Series C Preferred Units for approximately 8.3 million common units of Teekay Offshore. The number of common units issued consists of the approximately 1.9 million common units that would have been issuable under the original conversion terms of the Series C Preferred Units plus an additional approximately 6.4 million common units to induce the exchange. The value of the additional 6.4 million common units on the date of conversion was approximately \$37.7 million, of which \$26.7 million has been charged to non-controlling interest and \$11.0 million has been charged to retained earnings on the Company's unaudited consolidated balance sheet.

In June 2016, Teekay Offshore and the unitholders of the Series C Preferred Units also exchanged the remaining approximately 8.5 million Series C Preferred Units for approximately 8.5 million Series C-1 Preferred Units. The terms of the Series C-1 Preferred Units are equivalent to the terms of the Series C Preferred Units, with the exception that at any time after the 18-month anniversary of the original Series C Preferred Units closing date, at the election of each holder, each Series C-1 Preferred Unit is convertible into 1.474 common units of Teekay Offshore. In addition, if a unitholder of the Series C-1 Preferred Units elects to convert their Series C-1 Preferred Units into common units of Teekay Offshore, Teekay Offshore now has the option to redeem these Series C-1 Preferred Units for cash based on the closing market price of the common units of Teekay Offshore instead of issuing common units. Furthermore, if after the three-year anniversary of the closing date, the volume weighted average price of the common units exceeds 150% of \$16.25 per unit, Teekay Offshore has the option to convert the Series C-1 Preferred Units into common units. In addition, unlike the Series C Preferred Units, for which distributions were to be paid in cash, quarterly distributions on the Series C-1 Preferred Units for the eight consecutive quarters ending March 31, 2018 may be paid in Teekay Offshore's sole discretion, in cash, common units (at a discount of 2% to the 10-trading day volume weighted average price ending on the distribution declaration date) or a combination of cash and common units (at the same discount), and thereafter, the distributions will be paid in cash. Consistent with the terms of the Series C Preferred Units, the Series C-1 Preferred Units may be redeemed in cash if a change of control occurs in Teekay Offshore. As a result, the Series C-1 Preferred Units are included on the Company's unaudited consolidated balance sheet as part of temporary equity which is above the equity section but below the liabilities section. The exchange of the Series C Preferred Units for Series C-1 Preferred Units has been accounted for as an extinguishment of the Series C Preferred Units and the issuance of the Series C-1 Preferred Units. As a result, the excess of the carrying value of the Series C Preferred Units over the fair value of the Series C-1 Preferred Units was approximately \$20.6 million, of which \$14.6 million was accounted for as an increase to non-controlling interest and \$6.0 million as an increase to retained earnings on the Company's unaudited consolidated balance sheet.

In June 2016, Teekay Offshore issued 4.0 million of its 10.50% Series D Cumulative Convertible Perpetual Preferred Units (or Series D Preferred Units), of which 1,040,000 of the Series D Preferred Units were purchased by Teekay. Teekay Offshore pays to holders of the Series D Preferred Units a cumulative, quarterly cash distribution in arrears at an annual rate of 10.5%. However, Teekay Offshore may elect, in its sole discretion, to pay the quarterly distributions for the first eight consecutive quarters following issuance in cash, common units (at a discount of 4% to the 10-trading

day volume weighted average price ending on the distribution declaration date) or a combination of cash and common units (at the same discount), and thereafter the distributions will be paid in cash. The Series D Preferred Units have no mandatory redemption date, but they are redeemable at Teekay Offshore's option after June 29, 2021 for a 10% premium to the liquidation value and for a 5% premium to the liquidation value any time after June 29, 2022. The Series D Preferred Units are exchangeable into common units of Teekay Offshore at the option of the holder at any time after June 29, 2021, based on the 10-trading day volume weighted average price at the time of the notice of exchange or \$4.00. A change of control event involving the purchase of at least 90% of the common units or a change in ownership of the general partner of Teekay Offshore by 50% or more would result in the Series D Preferred Units being redeemable for cash. As a result, the Series D Preferred Units, net of Teekay's units, are included on the Company's unaudited consolidated balance sheet as part of temporary equity which is above the equity section but below the liabilities section.

In June 2016, in connection with the completion of Teekay Offshore's financing initiatives, Teekay Offshore agreed that, until Teekay Offshore repays amounts outstanding under its NOK bonds maturing 2018, it will only pay distributions to holders of Series C-1 Preferred Units and Series D Preferred Units in common units, except that, at any time with respect of the Series C-1 Preferred Units, and at any time after June 29, 2018 with respect to the Series D Preferred Units, Teekay Offshore may pay distributions to holders of Series C-1 Preferred Units and Series D Preferred Units, respectively, in cash, upon condition that the amount of such cash distributions are matched or exceeded by the proceeds of additional equity raised by us in advance of, or within six months following, payment of the cash distributions.

f. Other

The Company enters into indemnification agreements with certain officers and directors. In addition, the Company enters into other indemnification agreements in the ordinary course of business. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company maintains what it believes is appropriate liability insurance that reduces its exposure and enables the Company to recover future amounts paid up to the maximum amount of the insurance coverage, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

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## 10. Financial Instruments

## a. Fair Value Measurements

For a description of how the Company estimates fair value and for a description of the fair value hierarchy levels, see Note 10 in the Company's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2016.

The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis as well as the estimated fair value of the Company's financial instruments that are not accounted for at fair value on a recurring basis.

		June 30, 2017		December 31, 2016	
	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$
Recurring					
Cash and cash equivalents, restricted cash, and marketable securities	Level 1	815,783	815,783	805,567	805,567
Derivative instruments (note 13)					
Interest rate swap agreements – assets <sup>(1)</sup>	Level 2	3,300	3,300	7,943	7,943
Interest rate swap agreements – liabilities <sup>(1)</sup>	Level 2	(304,154 )	(304,154 )	(302,935 )	(302,935 )
Cross currency interest swap agreement <sup>(1)</sup>	Level 2	(186,764 )	(186,764 )	(237,165 )	(237,165 )
Foreign currency contracts	Level 2	653	653	(2,993 )	(2,993 )
Stock purchase warrants	Level 3	—	—	575	575
Time-charter swap agreement	Level 3	—	—	208	208
Freight forward agreements	Level 1	10	10	—	—
Non-recurring					
Vessels and equipment	Level 2	—	—	11,300	11,300
Vessels held for sale	Level 2	17,000	17,000	61,282	61,282
Equity-accounted investments (note 6c)	Level 1	33,287	33,287	—	—
Long-term investments	Level 2	—	—	6,000	6,000
Other					
Loans to equity-accounted investees and joint venture partners – Current	(2)	10,951	(2 )	11,821	(2 )
Loans to equity-accounted investees and joint venture partners – Long-term	(2)	322,061	(2 )	292,209	(2 )
Long-term receivable included in accounts receivable and other assets <sup>(3)</sup>	Level 3	7,052	7,021	10,985	10,944
Long-term debt – public (note 7)	Level 1	(1,516,105)	(1,375,814)	(1,503,472)	(1,409,996)
Long-term debt – non-public (note 7)	Level 2	(5,056,817)	(4,960,137)	(5,136,074)	(5,009,900)

The fair value of the Company's interest rate swap and cross currency swap agreements at June 30, 2017 includes (1)\$12.7 million (December 31, 2016 - \$15.8 million) accrued interest expense which is recorded in accrued liabilities on the unaudited consolidated balance sheets.

In the unaudited interim consolidated financial statements, the Company's loans to and equity investments in (2)equity-accounted investees form the aggregate carrying value of the Company's interests in entities accounted for by the equity method. The fair value of the individual components of such aggregate interests is not determinable.

(3) As at June 30, 2017, the estimated fair value of the non-interest bearing receivable from Royal Dutch Shell plc (or Shell) is based on the remaining future fixed payments as well as an estimated discount rate. The estimated fair value of this receivable as of June 30, 2017 was \$7.0 million (December 31, 2016 – \$10.9 million) using a discount rate of 8.0%. As there is no market rate for the equivalent of an unsecured non-interest bearing receivable from Shell, the discount rate is based on unsecured debt instruments of similar maturity held by the Company, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

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Time-charter swap agreement - Changes in fair value during the three and six months ended June 30, 2017 for Teekay Tankers' time-charter swap agreement, which is described in Note 13 below and is measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
	\$	\$
Fair value asset - beginning of the period	(185)	208
Settlements	(360)	(1,106)
Realized and unrealized (loss) gain in earnings	545	898
Fair value asset - at the end of the period	—	—

The estimated fair value of the time-charter swap agreement was based in part upon the Company's projection of future Aframax spot market tanker rates, which were derived from current Aframax spot market tanker rates and estimated future rates, as well as an estimated discount rate. The time-charter swap agreement ended on April 30, 2017.

Stock purchase warrants – During January 2014, the Company received from TIL stock purchase warrants entitling it to purchase up to 1.5 million shares of common stock of TIL (see Note 13). In May 2017, Teekay Tankers entered into the Merger Agreement with TIL. Under the terms of the Merger Agreement, warrants to purchase or acquire shares of common stock of TIL that have not been exercised as of the effective time of the merger, will be canceled. As a result, no value is recorded for this warrant in the Company's balance sheet at June 30, 2017.

Changes in fair value during the three and six months ended June 30, 2017 and 2016 for the Company's derivative instruments, the TIL stock purchase warrants, which are described below and are measured at fair value on the recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	\$	\$	\$	\$
Fair value at the beginning of the period	332	6,107	575	10,328
Unrealized loss included in earnings	(332)	(4,274)	(575)	(8,495)
Fair value at the end of the period	—	1,833	—	1,833

Contingent consideration liability – In August 2014, Teekay Offshore acquired 100% of the outstanding shares of Logitel, a Norway-based company focused on high-end UMS, from CeFront for \$4.0 million, which was paid in cash at closing, plus a commitment to pay an additional amount of up to \$27.6 million, depending on certain performance criteria.

The Arendal Spirit UMS was delivered to Teekay Offshore in February 2015, and began its three-year charter contract in June 2015. During the second quarter of 2016, Teekay Offshore canceled the UMS construction contracts for its two remaining UMS newbuildings. This is expected to eliminate any future purchase price contingent consideration payments. Consequently, the contingent liability was reversed in the second quarter of 2016. The gain associated with this reversal is included in Other loss on the Company's unaudited consolidated statements of loss for the three and six months ended June 30, 2016.

Changes in the estimated fair value of Teekay Offshore's contingent consideration liability relating to the acquisition of Logitel, which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), during the three and six months ended June 30, 2016 are as follows:

Three Months Ended	Six Months Ended

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	June 30, <del>2016</del>	June 30, <del>2016</del>
	\$	\$
Balance at beginning of period	-(15,221)	-(14,830)
Gain included in Other loss - net	-15,221	-14,830
Balance at end of period	—	—

b. Financing Receivables

The following table contains a summary of the Company's financing receivables by type of borrower and the method by which the Company monitors the credit quality of its financing receivables on a quarterly basis.



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Class of Financing Receivable	Credit Quality Indicator	Grade	June 30, 2017 \$	December 31, 2016 \$
Direct financing leases	Payment activity	Performing	653,846	660,594
Other loan receivables				
Loans to equity-accounted investees and joint venture partners	Other internal metrics	Performing	333,012	304,030
Long-term receivable included in other assets	Payment activity	Performing	13,663	17,712
			1,000,521	982,336

**11. Restructuring Charges**

During the three and six months ended June 30, 2017, the Company recorded restructuring charges of \$nil and \$2.2 million, respectively. The restructuring charges primarily relate to the reorganization and realignment of resources of certain of the Company's strategic development function to better respond to the changing business environment, and reorganization of the Company's FPSO business to create better alignment with the Company's offshore operations. During the three and six months ended June 30, 2016, the Company recorded restructuring charges of \$5.8 million and \$19.8 million, respectively. The restructuring related to the closure of two offices and seafarers' severance amounts related to a tug business in Western Australia, reorganization of the Company's FPSO business to create better alignment with the Company's offshore operations, and reductions to charges previously accrued. The charges related to the seafarers' severance were partly recovered from the customer and the recovery is included in revenues on the unaudited consolidated statements of loss.

At June 30, 2017 and December 31, 2016, \$2.5 million and \$5.6 million, respectively, of restructuring liabilities were recorded in accrued liabilities on the unaudited consolidated balance sheets.

**12. Accumulated Other Comprehensive Loss**

As at June 30, 2017 and December 31, 2016, the Company's accumulated other comprehensive loss consisted of the following components:

	June 30, 2017 \$	December 31, 2016 \$
Unrealized loss on qualifying cash flow hedging instruments	(493 )	(41 )
Pension adjustments, net of tax recoveries	(12,272)	(12,160 )
Unrealized gain (loss) on marketable securities	284	(416 )
Foreign exchange gain on currency translation	2,426	2,014
	(10,055)	(10,603 )

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## 13. Derivative Instruments and Hedging Activities

The Company uses derivatives to manage certain risks in accordance with its overall risk management policies.

## Foreign Exchange Risk

The Company economically hedges portions of its forecasted expenditures denominated in foreign currencies with foreign currency forward contracts.

As at June 30, 2017, the Company was committed to the following foreign currency forward contracts:

	Contract Amount in Foreign Currency	Average Forward Rate <sup>(1)</sup>	Fair Value / Expected Carrying Amount Of Asset (Liability)	2017	Expected Maturity 2018
			\$	\$	
Euro	7,500	0.92	449	8,153	—
Norwegian Kroner	430,000	8.36	204	31,467	19,982
			653	39,620	19,982

(1) Average contractual exchange rate represents the contracted amount of foreign currency one U.S. Dollar will buy. The Company enters into cross currency swaps, and pursuant to these swaps the Company receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal amounts of the Company's NOK-denominated bonds due in late 2017 through 2021. In addition, the cross currency swaps economically hedge the interest rate exposure on the NOK bonds due in late 2017 through 2021. The Company has not designated, for accounting purposes, these cross currency swaps as cash flow hedges of its NOK-denominated bonds due in late-2017 through 2021. As at June 30, 2017, the Company was committed to the following cross currency swaps:

Notional Amount NOK	Notional Amount USD	Floating Rate Receivable Reference Rate	Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset / (Liability) \$	Remaining Term (years)
420,000 <sup>(1)(2)</sup>	70,946	NIBOR	5.75%	8.84%	(23,136 )	1.4
800,000 <sup>(1)(3)</sup>	143,536	NIBOR	5.75%	7.58%	(52,004 )	1.5
900,000	150,000	NIBOR	4.35%	6.43%	(45,161 )	1.2
1,000,000	134,000	NIBOR	3.70%	5.92%	(16,572 )	2.9
1,000,000	162,200	NIBOR	4.25%	7.45%	(49,720 )	1.6
1,200,000	146,500	NIBOR	6.00%	7.70%	(171 )	4.3
					(186,764 )	

(1) Notional amount reduces equally with NOK bond repayments (see Note 7).

(2) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 7.2 million for \$1.2 million (see Note 7).

- (3) Excludes an economic hedge on the foreign currency exposure for a three percent premium upon maturity of the NOK bonds which exchanges NOK 19.2 million for \$3.4 million (see Note 7).

#### Interest Rate Risk

The Company enters into interest rate swap agreements, which exchange a receipt of floating interest for a payment of fixed interest, to reduce the Company's exposure to interest rate variability on its outstanding floating-rate debt. The Company designates certain of its interest rate swap agreements as cash flow hedges for accounting purposes.

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As at June 30, 2017, the Company was committed to the following interest rate swap agreements related to its LIBOR-based debt and EURIBOR-based debt, whereby certain of the Company's floating-rate debt were swapped with fixed-rate obligations:

	Interest Rate Index	Principal Amount	Fair Value / Carrying Amount of Asset / (Liability) \$	Weighted- Average Remaining Term (years)	Fixed Interest Rate (%) <sup>(1)</sup>
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps <sup>(2)</sup>	LIBOR	2,680,734	(247,864 )	5.2	3.3
U.S. Dollar-denominated interest rate swaps <sup>(3)</sup>	LIBOR	517,629	(21,329 )	3.9	3.0
U.S. Dollar-denominated interest rate swaption <sup>(4)</sup>	LIBOR	160,000	(959 )	0.6	2.0
U.S. Dollar-denominated interest rate swaption <sup>(4)</sup>	LIBOR	160,000	154	0.6	3.1
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps <sup>(5) (6)</sup>	EURIBOR	230,343	(30,856 ) (300,854 )	3.5	3.1

(1) Excludes the margins the Company pays on its variable-rate debt, which, as of June 30, 2017, ranged from 0.3% to 4.5%.

(2) Includes interest rate swaps with notional amount reducing quarterly or semi-annually.

Inception dates range from September 2017 to April 2018. Interest rate swaps with an aggregate principal amount of \$320.0 million are being used to economically hedge expected interest payments on new debt that is planned to be outstanding from 2017 to 2024. These interest rate swaps are subject to mandatory early termination in 2017 and 2018 whereby the swaps will be settled based on their fair value at that time.

(3) During August 2015, as part of its hedging program, Teekay LNG entered into interest rate swaption agreements whereby it has a one-time option in January 2018 to enter into an interest rate swap at a fixed rate of 3.10% with a third party, and the third party has a one-time option in January 2018 to require Teekay LNG to enter into an interest rate swap at a fixed rate of 1.97%. If Teekay LNG or the third party exercises its option, there will be a cash settlement in January 2018 for the fair value of the interest rate swap in lieu of taking delivery of the actual interest rate swap.

(4) Principal amount reduces monthly to 70.1 million Euros (\$80.1 million) by the maturity dates of the swap agreements.

(5) Principal amount is the U.S. Dollar equivalent of 201.6 million Euros.

Teekay Corporation has guaranteed obligations, up to a maximum of \$387.0 million, pursuant to certain interest rate swaps and cross currency swaps of Teekay Offshore. As at June 30, 2017, had the interest rate swap guarantees been called on, the Company estimates that it would have been obligated to pay an amount of \$242.6 million. Subsequent to June 30, 2017, as part of the strategic partnership with Brookfield (see note 16b), Teekay expects to be released from all of its guarantees relating to Teekay Offshore's interest rate swap and cross currency swap agreements.

## Stock Purchase Warrants

In January 2014, Teekay and Teekay Tankers formed TIL. Teekay and Teekay Tankers purchased an aggregate of 5.0 million shares of TIL's common stock, representing an initial 20% interest in TIL, as part of a \$250.0 million private placement by TIL, which represents a total investment by Teekay and Teekay Tankers of \$50.0 million. In addition,

Teekay and Teekay Tankers received stock purchase warrants entitling them to purchase an aggregate of up to 1.5 million shares of common stock of TIL at a fixed price of \$10 per share. Alternatively, if the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, Teekay and Teekay Tankers may also exercise their stock purchase warrants at 61.67 NOK per share. The estimated fair value of the warrants on issuance was \$6.8 million and was included in other income in the consolidated statements of loss. The stock purchase warrants vest in four equally sized tranches and as at June 30, 2017, two tranches had vested. If the shares of TIL's common stock trade on a national securities exchange or over-the-counter market denominated in NOK, each tranche will vest and become exercisable when and if the fair market value of a share of TIL's common stock equals or exceeds 77.08 NOK, 92.50 NOK, 107.91 NOK and 123.33 NOK, respectively, for such tranche for any ten consecutive trading days. The stock purchase warrants expire on January 23, 2019. Upon completion of the Merger Agreement (see note 6c), the stock purchase warrants will be cancelled. As a result, no value is recorded for this warrants on the Company's unaudited balance sheet as at June 30, 2017 (see note 10).

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## Time-charter Swap Agreement

Effective June 1, 2016, Teekay Tankers entered into a time-charter swap agreement for 55% of two Aframax-equivalent vessels. Under such agreement, Teekay Tankers received \$27,776 per day, net of a 1.25% brokerage commission, and paid 55% of the net revenue distribution of two Aframax-equivalent vessels employed in Teekay Tankers' Aframax revenue sharing arrangement, less \$500 per day, for a period of 11 months plus an additional two months at the counterparty's option. The purpose of the agreement is to reduce Teekay Tankers' exposure to spot tanker market rate variability for certain of its vessels that are employed in the Aframax revenue sharing arrangement. Teekay Tankers had not designated, for accounting purposes, the time-charter swap as a cash flow hedge. The fair value of the time-charter swap agreement at June 30, 2017 was \$nil (December 31, 2016 - an asset of \$0.2 million). As of May 1, 2017, the time-charter swap counter-party did not exercise the two-month option and as such the agreement was completed as of June 30, 2017.

## Forward Freight Agreements

Teekay Tankers uses forward freight agreements (or FFAs) in non-hedge-related transactions to increase or decrease its exposure to spot market rates, within defined limits. Net gains and losses from FFAs are recorded within realized and unrealized gain (loss) on non-designated derivative instruments in the Company's unaudited consolidated statements of loss.

## Tabular Disclosure

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Company's unaudited consolidated balance sheets.

	Prepaid Expenses and Other	Other Non-Current Assets	Accrued Liabilities and Other	Current Portion of Derivative Liabilities	Derivative Liabilities
	\$	\$	\$	\$	\$
As at June 30, 2017					
Derivatives designated as a cash flow hedge:					
Interest rate swap agreements	—	496	(281 )	(1,658 )	(898 )
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	1,038	3	—	(388 )	—
Interest rate swap agreements	689	3,847	(9,213 )	(65,811 )	(228,025 )
Cross currency swap agreements	—	1,180	(3,160 )	(35,261 )	(149,523 )
Forward freight agreements	27	—	(17 )	—	—
	1,754	5,526	(12,671 )	(103,118 )	(378,446 )
As at December 31, 2016					
Derivatives designated as a cash flow hedge:					
Interest rate swap agreements	—	1,340	(363 )	(1,033 )	(52 )
Derivatives not designated as a cash flow hedge:					
Foreign currency contracts	119	—	—	(2,601 )	(511 )
Interest rate swap agreements	212	9,839	(11,979 )	(59,055 )	(233,901 )
Cross currency swap agreements	—	—	(3,464 )	(53,124 )	(180,577 )
Stock purchase warrants	—	575	—	—	—
Time-charter swap agreement	875	—	(667 )	—	—
	1,206	11,754	(16,473 )	(115,813 )	(415,041 )

As at June 30, 2017, the Company had multiple interest rate swaps, cross currency swaps and foreign currency forward contracts with the same counterparty that are subject to the same master agreements. Each of these master agreements provides for the net settlement of all derivatives subject to that master agreement through a single payment in the event of default or termination of any one derivative. The fair value of these derivatives is presented on a gross basis in the Company's unaudited consolidated balance sheets. As at June 30, 2017, these derivatives had an aggregate fair value asset amount of \$4.2 million and an aggregate fair value liability amount of \$307.2 million. As at June 30, 2017, the Company had \$50.1 million on deposit with the relevant counterparties as security for swap liabilities under certain master agreements. The deposit is presented in restricted cash on the unaudited consolidated balance sheets.

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For the periods indicated, the following table presents the effective portion of gains (losses) on interest rate swap agreements designated and qualifying as cash flow hedges:

## Three Months Ended June 30, 2017

Effective Portion Recognized in AOCI <sup>(1)</sup>	Effective Portion Reclassified from AOCI <sup>(2)</sup>	Ineffective Portion <sup>(3)</sup>	
\$	\$	\$	
(1,508)	(706)	(821)	Interest expense
(1,508)	(706)	(821)	

## Three Months Ended June 30, 2016

Effective Portion Recognized in AOCI <sup>(1)</sup>	Effective Portion Reclassified from AOCI <sup>(2)</sup>	Ineffective Portion <sup>(3)</sup>	
(5,458)	—	1,291	Interest expense
(5,458)	—	1,291	

## Six Months Ended June 30, 2017

Effective Portion Recognized in AOCI <sup>(1)</sup>	Effective Portion Reclassified from AOCI <sup>(2)</sup>	Ineffective Portion <sup>(3)</sup>	
\$	\$	\$	
(1,562)	(762)	(754)	Interest expense
(1,562)	(762)	(754)	

## Six Months Ended June 30, 2016

Effective Portion Recognized in AOCI <sup>(1)</sup>	Effective Portion Reclassified from AOCI <sup>(2)</sup>	Ineffective Portion <sup>(3)</sup>	
(14,025)	—	(56)	Interest expense
(14,025)	—	(56)	

(1) Recognized in accumulated other comprehensive loss (or AOCI).

(2) Recorded in AOCI during the term of the hedging relationship and reclassified to earnings.

(3) Recognized in the ineffective portion of gains (losses) on derivative instruments designated and qualifying as cash flow hedges.

As at June 30, 2017, the Company estimated, based on then current interest rates, that it would reclassify approximately \$1.3 million of net losses on interest rate swaps from accumulated other comprehensive loss to earnings during the next 12 months.



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Realized and unrealized (losses) and gains from derivative instruments that are not designated for accounting purposes as cash flow hedges are recognized in earnings and reported in realized and unrealized losses on non-designated derivatives in the unaudited consolidated statements of loss. The effect of the (losses) and gains on derivatives not designated as hedging instruments in the unaudited consolidated statements of loss is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Realized (losses) gains relating to:				
Interest rate swap agreements	(15,914)	(22,409)	(32,470)	(45,589 )
Interest rate swap agreement terminations	(1,005 )	—	(610 )	(8,140 )
Foreign currency forward contracts	(618 )	(2,336 )	(971 )	(7,332 )
Time charter swap agreement	360	126	1,106	126
Forward freight agreements	80	—	113	—
	(17,097)	(24,619)	(32,832)	(60,935 )
Unrealized (losses) gains relating to:				
Interest rate swap agreements	(15,517)	(62,817)	(6,394 )	(143,871)
Foreign currency forward contracts	2,808	1,093	3,648	15,064
Stock purchase warrants	(332 )	(4,274 )	(575 )	(8,496 )
Time charter swap agreement	(402 )	1,345	(875 )	1,345
Forward freight agreements	(30 )	—	(17 )	—
	(13,473)	(64,653)	(4,213 )	(135,958)
Total realized and unrealized losses on derivative instruments	(30,570)	(89,272)	(37,045)	(196,893)

Realized and unrealized gains (losses) of the cross currency swaps are recognized in earnings and reported in foreign currency exchange (loss) gain in the consolidated statements of loss. The effect of the losses on cross currency swaps on the consolidated statements of loss is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Realized losses on maturity and termination of cross currency swaps	(25,733)	—	(25,733)	(32,628)
Realized losses	(5,394 )	(5,000 )	(12,135)	(9,939 )
Unrealized gains (losses)	43,017	(20,993)	50,096	53,213
Total realized and unrealized gains (losses) on cross currency swaps	11,890	(25,993)	12,228	10,646

The Company is exposed to credit loss to the extent the fair value represents an asset in the event of non-performance by the counterparties to the foreign currency forward contracts, and cross currency and interest rate swap agreements; however, the Company does not anticipate non-performance by any of the counterparties. In order to minimize counterparty risk, the Company only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transaction. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.



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## 14. Income Tax Expense

The components of the provision for income tax expense are as follows:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Current	(4,283)	(4,082)	(5,945)	(8,712)
Deferred	756	2,659	(601)	6,213
Income tax expense	(3,527)	(1,423)	(6,546)	(2,499)

The following reflects the changes in the Company's unrecognized tax benefits, recorded in other long-term liabilities, from January 1, 2017 to June 30, 2017:

	\$
Balance of unrecognized tax benefits as at January 1, 2017	19,492
Increase for positions related to the current period	3,905
Decrease related to statute of limitations	(663)
Balance of unrecognized tax benefits as at June 30, 2017	22,734

The majority of the net increase for positions for the six months ended June 30, 2017 relates to potential tax on freight income.

The Company does not presently anticipate such unrecognized tax benefits will significantly increase or decrease in the next 12 months; however, actual developments could differ from those currently expected.

## 15. Net Loss Per Share

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Net loss attributable to the shareholders of Teekay Corporation	(80,152)	(77,809)	(125,408)	(126,592)
The Company's portion of the Inducement Premium and Exchange Contribution charged to retained earnings by Teekay Offshore (note 9e)	—	(4,993)	—	(4,993)
Net loss attributable to the shareholders of Teekay Corporation - basic and diluted	(80,152)	(82,802)	(125,408)	(131,585)
Weighted average number of common shares	86,259,207	72,945,635	86,217,567	72,844,031
Dilutive effect of stock-based compensation	—	—	—	—
Common stock and common stock equivalents	86,259,207	72,945,635	86,217,567	72,844,031
Loss per common share:				
- Basic	(0.93)	(1.14)	(1.45)	(1.81)
- Diluted	(0.93)	(1.14)	(1.45)	(1.81)

Stock-based awards that have an anti-dilutive effect on the calculation of diluted loss per common share, are excluded from this calculation. For the three and six months ended June 30, 2017, options to acquire 4.0 million shares of Common Stock had an anti-dilutive effect on the calculation of diluted income per common share (three and six months ended June 30, 2016 - 3.9 million). In periods where a loss attributable to shareholders of Teekay has been incurred all stock-based awards are anti-dilutive.

## 16. Subsequent Events

a) In July 2017, Teekay Tankers completed a \$153.0 million sale-leaseback financing transaction relating to four of its Suezmax tankers. The transaction is structured as a 12-year bareboat charter at an average rate of approximately

\$11,100 per day with purchase options for all four vessels throughout the lease term beginning in 2020. As a result of the transaction, Teekay Tankers expects to recognize an accounting write-down in the third quarter of 2017 of approximately \$20.0 million per vessel subject to the transaction.

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TEEKAY CORPORATION AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, other than share and per share data)

In July 2017, Teekay and Teekay Offshore announced entry into agreements for a strategic partnership with b) Brookfield Business Partners L.P. (or Brookfield) and related transactions (or the Brookfield Transaction). Subject to the satisfaction of various conditions to closing the transaction consisted of the following, among others:

Brookfield and Teekay will invest \$610.0 million and \$30.0 million, respectively, in Teekay Offshore in exchange for 244.0 million and 12.0 million new common units, respectively and 62.4 million and 3.1 million warrants, respectively, with an exercise price of \$0.01 which are exercisable when Teekay Offshore's common unit price is equal to or greater than \$4.00 per common unit until the seventh anniversary of the closing of the transaction.

Following the investment, Brookfield will own approximately 60% and Teekay will own approximately 14% of the outstanding common units of Teekay Offshore;

Brookfield will acquire from Teekay a 49.0% interest in Teekay Offshore's general partner in exchange for \$4.0 million and an option to purchase an additional 2.0% interest in Teekay Offshore's general partner interest from Teekay in exchange for 1.0 million of the warrants to be issued to Brookfield as described above;

Teekay Offshore will repurchase and cancel all of the outstanding Series C-1 and Series D Preferred Units from the existing unitholders, for an aggregate of approximately \$250.0 million in cash, which will save approximately \$28.0 million annually in cash distributions. Concurrently, Teekay Offshore's Series B Warrants to purchase common units issued on June 29, 2016 will be amended to reduce the exercise price of the Series B Warrants from \$6.05 to \$4.55;

Teekay Offshore has reached agreement in principle with the lenders of the Arendal Spirit UMS debt facility to extend the mandatory prepayment date to September 30, 2018, in exchange for a principal prepayment, subject to receipt of lenders' final internal approvals;

Brookfield will acquire from a subsidiary of Teekay, the \$200.0 million subordinated promissory note issued by Teekay Offshore (the 2016 Teekay Corporation Promissory Note) on July 1, 2016 and extend its maturity date from 2019 to 2022. The 2016 Teekay Corporation Promissory Note will be purchased for an aggregate of \$140.0 million and 11.4 million warrants to be issued to Brookfield as described above;

Teekay Offshore will transfer its shuttle tanker business into a new, wholly-owned, non-recourse subsidiary, Teekay Shuttle Tankers L.L.C. (or ShuttleCo). As part of the formation of ShuttleCo, a majority of Teekay Offshore's shuttle tanker fleet will be refinanced with a new \$600.0 million, five-year debt facility, and two 50%-owned vessels will be refinanced with a new \$71.0 million, four-year debt facility. In addition, an existing \$250.0 million debt facility secured by the three East Coast of Canada newbuildings, and an existing \$140.7 million private placement bond secured by two vessels, will be transferred from Teekay Offshore to ShuttleCo;

A significant portion of the existing NOK bonds, of which a portion are repayable in late-2017 and early-2018, and are due to mature in late-2018, will be repurchased with proceeds from a new five-year \$250 million U.S.

Dollar-denominated bond offering by ShuttleCo in the Norwegian bond market, which recently priced at a fixed coupon of 7.125% per annum; and

Certain financial institutions providing interest rate swaps to Teekay Offshore have agreed to (i) lower the fixed interest rate on the swaps, (ii) extend the termination option of the swaps by two years to 2021, and (iii) eliminate the financial guarantee and security package currently provided by Teekay in return for a prepayment amount and fees. As part of the Brookfield Transaction, Teekay Offshore has reduced its existing common unit distribution to reinvest cash in the business and further strengthen their balance sheet. For the quarter ended June 30, 2017, Teekay Offshore's general partner declared a cash distribution of \$0.01 per common unit, compared to \$0.11 per common unit in the prior quarter.

For additional information about these and related proposed transactions, please see Teekay's Report on Form 6-K furnished to the SEC on August 1, 2017.



Table of Contents**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited consolidated financial statements and accompanying notes contained in “Item 1 – Financial Statements” of this Report on Form 6-K and with our audited consolidated financial statements contained in “Item 18 – Financial Statements” and with Management’s Discussion and Analysis of Financial Condition and Results of Operations in “Item 5 – Operating and Financial Review and Prospects” of our Annual Report on Form 20-F for the year ended December 31, 2016.

**Overview**

Teekay Corporation (or Teekay) is an operational leader and project developer in the marine midstream space. We have general partnership interests in two publicly-listed master limited partnerships, Teekay Offshore Partners L.P. (or Teekay Offshore) and Teekay LNG Partners L.P. (or Teekay LNG). In addition, we have a controlling ownership interest of publicly-listed Teekay Tankers Ltd. (or Teekay Tankers) and we have a small fleet of directly-owned vessels. Teekay provides a comprehensive set of marine services to the world’s leading oil and gas companies. In July 2017, Teekay and Teekay Offshore announced that they had agreed to enter into a strategic partnership with Brookfield Business Partners L.P. , together with its institutional partners (or Brookfield). This partnership is part of a comprehensive solution for Teekay Offshore to strengthen its balance sheet and fully fund its existing growth projects. This transaction will also result in an increase in Teekay Parent’s liquidity and eliminates the financial guarantees currently provided by Teekay Parent to Teekay Offshore. This new partnership is explained more fully below in “Recent Developments in Teekay Offshore.”

**RECENT DEVELOPMENTS AND RESULTS OF OPERATIONS**

To understand our financial condition and results of operations, a general understanding of our organizational structure is required. Our organizational structure can be divided into (a) our controlling interests in our publicly-listed subsidiaries Teekay Offshore, Teekay LNG and Teekay Tankers (together, the Daughter Companies), and (b) Teekay and its remaining subsidiaries, which is referred to in this Report as Teekay Parent. For further information on our organizational structure, please read “Item 5. Operating and Financial Review and Prospects – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Structure”, in our Annual Report on Form 20-F for the year ended December 31, 2016.

The results of operations that follow have first been divided into (a) our controlling interests in our publicly-traded subsidiaries Teekay Offshore, Teekay LNG and Teekay Tankers and (b) Teekay Parent. Within each of these four groups, we have further subdivided the results into their respective lines of business. The following table presents revenue and income from vessel operations for each of these three subsidiaries and Teekay Parent and how they reconcile to our unaudited consolidated financial statements.

	Revenues				Income (Loss) from Vessel Operations			
	Three Months		Six Months Ended		Three Months		Six Months Ended	
	Ended		Ended		Ended		Ended	
(in thousands of U.S. dollars)	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016	2017	2016	2017	2016
Teekay Offshore	264,792	284,464	540,930	591,172	46,218	24,271	106,676	112,570
Teekay LNG	100,904	99,241	202,084	195,012	29,871	47,554	75,949	64,537
Teekay Tankers	108,789	145,738	239,274	317,047	1,587	32,948	12,328	89,772
Teekay Parent	65,495	83,104	123,861	180,830	(29,390)	(28,795)	(65,062)	(55,576)
Elimination of intercompany <sup>(1)(2)</sup>	(26,057)	(24,928)	(48,721)	(55,334)	—	—	—	—
Teekay Corporation Consolidated	513,923	587,619	1,057,428	1,228,727	48,286	75,978	129,891	211,303

(1) During the six months ended June 30, 2017, Teekay chartered in three floating storage and off-take (or FSO) units and two shuttle tankers from Teekay Offshore, and two liquefied natural gas (or LNG) carriers from Teekay LNG. During the six months ended June 30, 2016, Teekay chartered in three FSO units, two shuttle tankers and one

Aframax tanker from Teekay Offshore, two Aframax tankers from Teekay Tankers, and two LNG carriers from Teekay LNG.

(2) During 2014, Teekay sold to Teekay Tankers a 50% interest in Teekay Tankers Operations Ltd (or TTOL), which owns our conventional tanker commercial management and technical management operations, including direct ownership in five commercially managed revenue sharing arrangements of the Teekay group. Teekay Tankers and Teekay Parent each accounted for their 50% interests in TTOL as equity-accounted investments and, as such, TTOL's results were reflected in equity income of Teekay Tankers and Teekay Parent. Upon consolidation of Teekay Tankers into Teekay, the results of TTOL were accounted for on a consolidated basis by Teekay. On May 31, 2017, Teekay Tankers acquired from Teekay Parent, the remaining 50% interest in TTOL. As a result of the acquisition, the financial information for Teekay Tankers prior to the date that Teekay Tankers acquired interests in TTOL are retroactively adjusted to include the results of TTOL on a consolidated basis during the periods they were under common control of Teekay and had begun operations.

There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. These items can be found in Item 5 – “Operating and Financial Review and Prospects” in our Annual Report on Form 20-F for the year ended December 31, 2016.



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In accordance with United States generally accepted accounting principles (or GAAP), we report gross revenues in our consolidated statements of loss and include voyage expenses among our operating expenses. However, shipowners base economic decisions regarding the deployment of their vessels upon anticipated time-charter equivalent (or TCE) rates and industry analysts typically measure bulk shipping freight rates in terms of TCE rates. This is because under time charter contracts and floating production, storage and offloading (or FPSO) service contracts, the customer usually pays the voyage expenses while under voyage charters and contracts of affreightment (or CoA) the ship-owner usually pays the voyage expenses, which typically are added to the hire rate at an approximate cost. Accordingly, the discussion of revenue below focuses on revenues less voyage expenses (or Net Revenues), a non-GAAP financial measure, and TCE rates where applicable.

### Summary

Teekay Corporation consolidated income from vessels operations decreased to \$129.9 million for the six months ended June 30, 2017 compared to \$211.3 million in the prior year. The primary reasons for this net decrease in our consolidated results are as follows:

in Teekay Tankers, lower average TCE rates earned in the spot tanker market in the six months ended June 30, 2017 compared to 2016, and various vessel employment changes, in-chartered vessel redeliveries and vessel sales in 2016 and 2017;

in Teekay LNG, the write-down of the European Spirit conventional tanker in June 2017 and a decrease in revenue due to uncertainty of collection of hire relating to Teekay LNG's six LPG carriers on charter to I.M. Skaugen SE (or Skaugen) in the first half of 2017;

in Teekay Parent, the contract amendment related to the Hummingbird Spirit FPSO which reduced its revenues; and in Teekay Offshore, the termination of the charter contract of the Petrojarl Varg in 2016 and lower towage fleet rates and utilization, partially offset by the UMS fleet due to the write-down in 2016 relating to the cancellation of two UMS newbuildings contracts;

partially offset by

in Teekay LNG, the loss on sale of vessels recorded in 2016 upon the charterer, Centrofin Management Inc. (or Centrofin), exercising its purchase options on the Bermuda Spirit and Hamilton Spirit in February 2016 and March 2016, respectively and the deliveries of the Oak Spirit, Creole Spirit and Torben Spirit in 2016 and 2017.

Details of the changes to our results of operations for each of our segments for the three and six months ended June 30, 2017 compared to same periods in the prior year are provided in the following sections.

### Teekay Offshore

#### Recent Developments in Teekay Offshore

In July 2017, Teekay and Teekay Offshore announced entry into agreements for a strategic partnership with Brookfield and related transactions (or the Brookfield Transaction). Subject to the satisfaction of various conditions to closing, the transaction will consist of the following, among others:

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Brookfield and Teekay will invest \$610.0 million and \$30.0 million, respectively, in Teekay Offshore, in exchange for 244.0 million and 12.0 million new common units, respectively and 62.4 million and 3.1 million warrants, respectively, with an exercise price of \$0.01 and which are exercisable when Teekay Offshore's common unit price is equal to or greater than \$4.00 per common unit until the seventh anniversary of the closing of the transaction. Following the investment, Brookfield will own approximately 60% and Teekay will own approximately 14% of the outstanding common units of Teekay Offshore;

- Brookfield will acquire from Teekay a 49% interest in Teekay Offshore's general partner interest in exchange for \$4.0 million and an option to purchase an additional 2% interest in Teekay Offshore's general partner interest from Teekay in exchange for 1.0 million of the warrants to be issued to Brookfield as described above;

Teekay Offshore will repurchase and cancel all of the outstanding Series C-1 and Series D Preferred Units from existing unitholders, for an aggregate of approximately \$250 million in cash, which will save approximately \$28.0 million annually in cash distributions. Concurrently, Teekay Offshore's Series B Warrants to purchase common units issued on June 29, 2016 will be amended to reduce the exercise price of the Series B Warrants from \$6.05 to \$4.55; Teekay Offshore has reached agreement in principle with the lenders of the Arendal Spirit UMS debt facility to extend the mandatory prepayment date out to September 30, 2018, in exchange for a principal prepayment, subject to receipt of lenders' final internal approvals;

Brookfield will acquire from a subsidiary of Teekay, the \$200 million subordinated promissory note issued by Teekay Offshore on July 1, 2016 (the 2016 Teekay Corporation Promissory Note) and extend its maturity date from 2019 to 2022. The 2016 Teekay Corporation Promissory Note is expected to be purchased for an aggregate of \$140.0 million and 11.4 million warrants to be issued to Brookfield as described above;

Teekay Offshore will transfer its shuttle tanker business into a new, wholly-owned, non-recourse subsidiary, Teekay Shuttle Tankers L.L.C. (or ShuttleCo). As part of the formation of ShuttleCo, a majority of Teekay Offshore's shuttle tanker fleet will be refinanced with a new \$600 million, five-year debt facility, and two 50% owned vessels will be refinanced with a new \$71 million, four-year debt facility. In addition, an existing \$250 million debt facility secured by the three East Coast of Canada newbuildings, and an existing \$140.7 million private placement bond secured by two vessels, will be transferred from Teekay Offshore to ShuttleCo;

A significant portion of the existing Norwegian Kroner (or NOK) bonds, of which a portion are repayable in late-2017 and early-2018, and are due to mature in late-2018, will be repurchased with proceeds from a new five-year, \$250 million U.S. Dollar denominated bond offering by ShuttleCo in the Norwegian bond market, which recently priced at a fixed coupon of 7.125% per annum; and

Certain financial institutions providing interest rate swaps to Teekay Offshore have agreed to (i) lower the fixed interest rate on the swaps, (ii) extend the termination option of the swaps by two years to 2021, and (iii) eliminate the financial guarantee and security package currently provided by Teekay in return for a prepayment amount and fees. As part of the Brookfield transaction, Teekay Offshore has reduced its existing common unit distribution to reinvest cash in the business and further strengthen Teekay Offshore's balance sheet. For the quarter ended June 30, 2017, Teekay Offshore's general partner declared a cash distribution of \$0.01 per common unit, compared to \$0.11 per common unit in the prior quarter.

For additional information about these and related proposed transactions, please see Teekay's Report on Form 6-K furnished to the SEC on August 1, 2017.

In July 2017, Teekay Offshore signed an amendment to the Petrojarl I FPSO charter contract with Queiroz Galvão Exploração e Produção SA (or QGEP). The amended charter contracts includes an extension to the delivery window for the project and an adjusted charter rate profile which reduces the day rate for the FPSO unit during the first 18 months of production. During the final 3.5 years of the contract, the charter contract will revert to a rate that is higher than the original day rate plus oil price and production tariffs, which will provide the potential for Teekay Offshore to recover more than the reduction given in the first 18 months of the charter contract. As part of the renegotiation, the start-up of oil production on the Atlanta Field is expected to occur in the first quarter of 2018.

In June 2017, Teekay Offshore took delivery of the ALP Defender, the second of the four state-of-the-art SX-157 Ulstein Design ultra-long distance towing and offshore installation newbuildings being constructed by Niigata Shipbuilding & Repair in Japan. Due to the delayed delivery of the vessel, during the second quarter of 2017, Teekay Offshore received a reimbursement from the shipyard of \$8.5 million and received an advance payment on a \$15.8 million reimbursement related to delayed deliveries of the remaining two ultra-long distance towing and offshore installation newbuildings, which are scheduled to be delivered in late-2017 and early-2018.

In June 2017, Teekay Offshore finalized a three-year shuttle tanker CoA to service a development in the U.K. North Sea. The CoA which is expected to commence during the third quarter of 2017 and require the use of up to approximately 0.6 shuttle tanker equivalents per annum, will be serviced by Teekay Offshore's existing CoA shuttle tanker fleet.

In May 2017, Teekay Offshore completed a five-year contract extension, plus extension options, for the Falcon Spirit FSO unit, which commenced June 1, 2017. The contract extension includes a lump sum early termination fee payable if the contract is terminated prior to mid-2018. The Falcon Spirit FSO unit operates on the Al Rayyan field located offshore Qatar.

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In late-April 2017, Petroleo Netherlands B.V. notified Logitel Offshore Norway AS, a subsidiary of Teekay Offshore, that Petroleo Netherlands B.V. was terminating the charter contract for the Arendal Spirit UMS and would not pay the charter hire payments from November 2016. Teekay Offshore has disputed the termination and is reviewing its legal options, including the initiation of a claim for unpaid standby fees and damages for wrongful termination of the time-charter contract. The unit is currently being demobilized after which it will proceed into lay-up.

In March 2017, Teekay Offshore finalized a five-year shuttle tanker CoA, plus extension options, with a consortium of oil companies to service a development located in the U.K. Central North Sea. This CoA is expected to commence during the first quarter of 2018 and will be serviced by Teekay Offshore's existing CoA shuttle tanker fleet. The CoA will require the use of up to approximately 0.6 shuttle tanker equivalents per annum.

In March 2017, Teekay Offshore entered into a six-month, customer-funded, front-end engineering and design (or FEED) study agreement for the Petrojarl Varg FPSO unit with Alpha Petroleum Resources Limited, which is backed by private equity firm Petroleum Equity, for the development of the Cheviot field, formerly known as the Emerald field, located in the U.K. sector of the North Sea. The purpose of the FEED study is to define the modifications required for the Petrojarl Varg FPSO and use it to negotiate the terms of a potential FPSO lease and operate contract for the development of the Cheviot field.

#### Operating Results – Teekay Offshore

The following table compares Teekay Offshore's operating results and number of calendar-ship-days for its vessels for the three and six months ended June 30, 2017 and 2016.

(in thousands of U.S. Dollars, except calendar-ship-days)	Offshore Logistics		Offshore Production		Conventional Tankers		Teekay Offshore Total	
	Three Months Ended June 30,							
	2017	2016	2017	2016	2017	2016	2017	2016
Revenues	151,080	155,095	110,247	124,715	3,465	4,654	264,792	284,464
Voyage expenses	(20,158 )	(16,978 )	—	—	(38 )	(610 )	(20,196 )	(17,588 )
Vessel operating expenses	(54,626 )	(49,196 )	(35,079 )	(41,365 )	—	(166 )	(89,705 )	(90,727 )
Time-charter hire expense	(15,387 )	(14,764 )	—	—	(4,120 )	(4,065 )	(19,507 )	(18,829 )
Depreciation and amortization	(37,790 )	(36,823 )	(36,497 )	(37,234 )	—	—	(74,287 )	(74,057 )
General and administrative expenses <sup>(1)</sup>	(6,219 )	(5,604 )	(7,070 )	(8,217 )	(90 )	—	(13,379 )	(13,821 )
Asset impairments	(1,500 )	(43,650 )	—	—	—	—	(1,500 )	(43,650 )
Restructuring charges	—	(34 )	—	(1,487 )	—	—	—	(1,521 )
Income (loss) from vessel operations	15,400	(11,954 )	31,601	36,412	(783 )	(187 )	46,218	24,271
Equity income	—	—	3,425	3,626	—	—	3,425	3,626
Calendar-Ship-Days <sup>(2)</sup>								
Shuttle Tankers	2,836	2,953	—	—	—	—	2,836	2,953
FSO Units	637	637	—	—	—	—	637	637
FPSO Units	—	—	546	546	—	—	546	546
Towage Units	648	546	—	—	—	—	648	546
UMS Unit	91	91	—	—	—	—	91	